Options for Enhancing REDD+ Collaboration in the Context of Article 6 of the Paris Agreement

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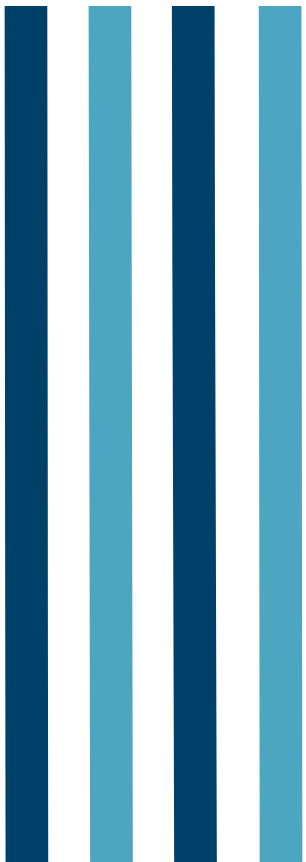
November 2017



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Acknowledgements

The authors are grateful for the contributions of Thiago Chagas and Donna Lee and the skillful guidance, facilitation, and process support of Michael Lesnick, Gary Decker, and Liz Duxbury of Meridian Institute.

This work has been commissioned and generously supported by Norway's International Climate and Forest Initiative and facilitated by Meridian Institute.

The author team and Meridian Institute extend our gratitude to all the individuals who helped inform the process to develop the paper and the analysis in the paper. Consultations and interviews with a diverse set of subject matter experts from governments, civil society, the funding community, and multilateral institutions provided valuable insights, feedback, and recommendations.

We also gratefully acknowledge the following individuals who provided input, but were not asked to endorse the paper or any portion thereof, for which the authors are solely responsible along with any errors of fact and/or interpretation.

David Antonioli
Ellysar Baroudy
Josefina Braña Varela
Tim Clairs
Iván Darío Valencia
Nicolas Duval-Mace
Daniela Goehler
Peter Graham
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Toby Janson-Smith
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Executive Summary

This report evaluates options for how countries that are parties to the Paris Agreement can cooperate to accelerate the implementation of REDD+.[1] The five presented options, summarized below, are not mutually exclusive and can be combined to deliver a blended flow of finance in support of the implementation of REDD+ strategies. Essential for the decision on how to combine various mechanisms and modalities of cooperation is a decision on the side of the tropical forest countries on whether and how much emission reductions they wish to transfer in return for financial support and how such transfers will affect their ability to achieve their nationally determined contributions (NDCs).

Option 1. Countries continue to rely on results-based finance on the basis of the Warsaw Framework for REDD+ (WFR). The Paris Agreement, through its Article 5, gives full recognition to the WFR and REDD+ in its long-term framework for international climate action. The WFR defines rules that allow the calculation of emission reductions against a reference emission level and/or forest reference level (together "RL") and serves as a basis for current results-based programs for REDD+. Under the WFR, partner countries incentivize the generation of emission reductions through results-based payments without receiving a transfer of emission reductions in return for payment.

Option 2. Countries transfer emission reductions under the modalities of Article 6.2 of the Paris Agreement in return for transfer-based payment. Article 6[2] enables countries to transfer reductions in emissions and increases in removals[3] that may be used by acquiring countries toward the achievement or overachievement of their NDCs. Article 6.2 allows countries much flexibility to cooperate through such "transfer-based finance" according to their terms, as long as the transactions meet the quality criteria of environmental integrity and transparency, including in governance, and the application of robust accounting to avoid double counting. Countries may engage in REDD+ through government-to-government transactions that transfer emission reductions without issuing them as carbon credits. Once transacted, emission reductions can no longer count against the transferring country's NDC. Transfer-based transactions under Article 6.2 are likely to apply additional accounting and quality criteria that supplement the rules of the WFR. In turn, forest countries can acquire access to additional markets and/or demand a higher price for emission reductions.

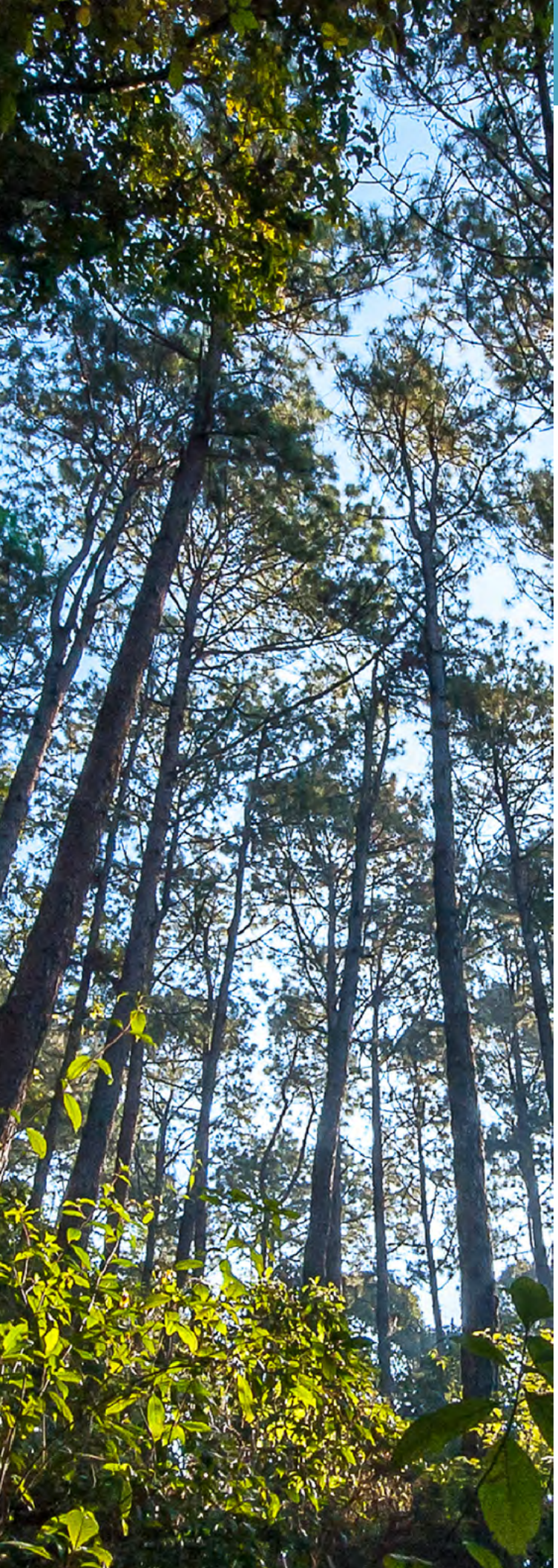
Option 3: Countries use Article 6 to involve private and public entities in REDD+ implementation. The private sector plays an important role in implementing REDD+, and Article 6 may be used to provide additional incentives for private-sector investments. Article 6 enables the issuance of carbon credits that can link government-to-government cooperation to carbon pricing programs involving the private sector. This can be part of country-driven instruments under Article 6.2 or be via the centralized crediting mechanism under Article 6.4, although it is not yet clear whether the Article 6.4 mechanism will allow for REDD+. Countries could authorize private and public entities to develop programs that will generate emission reductions and be "nested" into national accounting. These programs would earn carbon credits (or payments) that could be used domestically and/or transferred internationally. Countries may also implement carbon-pricing instruments (emission trading or carbon tax systems) that allow the use of international REDD+ credits to meet national compliance obligations.

Option 4: Countries generate emission reductions under Article 6.4 for specific activities nested into REDD+. Many REDD+ programs form part of comprehensive land-use strategies that include activities that may be eligible for the generation of emission reductions under Article 6.4 (e.g., forest restoration or climate-smart agriculture programs). REDD+ transfer-based payments could be linked to such activities that allow the measuring of emission reductions with a higher degree of certainty. Support for a subset of activities, integrated in to REDD+ accounting, could address concerns relating to environmental integrity while lowering the risk that the transfer of emission reductions leads to nonachievement of a country's NDC. Such complementary transactions could support REDD+ implementation through additional land-based emission reductions and payments.

1 REDD+ refers to activities that reduce emissions from deforestation and forest degradation, conserve forests, sustainably manage forests or enhance forest carbon stocks.

2 Unless otherwise stated, "Article" refers to an article of the Paris Agreement.

3 Reductions in emissions and increases in removals that are transferred in this way are referred to in Article 6.2 as internationally transferred mitigation outcomes (ITMOs). There is debate in the negotiation of the Article 6 guidance whether ITMOs cover any transfers under Article 6, including those generated under Article 6.4. We seek to not enter this debate by referring only to the transfer of emission reductions (which should be read to also include increases in removals).



Option 5: Countries negotiate and implement joint NDCs. Finally, countries could decide to elevate the REDD+ emission reduction goals of one or a group of countries to a joint NDC under Article 4.16. Joint REDD+ goals under NDCs could be formulated among a number of tropical forest countries that share a particular forest biome or face similar deforestation threats. Joint NDCs could also be formulated between tropical forest countries and partner countries, which would then become jointly be liable for their achievement. While cooperating countries would still need to meet their targets individually, the jointly implemented actions would not lead to a transfer of emission reductions between the countries.

Where countries engage in transfer-based cooperation, additional quality criteria may apply to safeguard the environmental integrity of transferred emission reductions. International negotiators are currently considering criteria that ensure the avoidance of double counting in the context of Article 6. They are also debating whether additional guidance is needed, not only for Article 6.4 but for Article 6.2. Such guidance would apply to all sectors, as the same stringency would be expected from emission reductions in any sector generating emission reductions that can be transferred and accounted against the NDC of the acquiring country. To ensure that REDD+ emission reductions are real and measurable, the following additional criteria for the formulation of reference levels may be needed:

- NDCs could make more explicit reference to the role of REDD+, making specific the intended goals, how REDD+ is to contribute to the overall NDC, and what activities, carbon pools and greenhouse gases are to be included in the accounting system.
- Countries could cooperate in further improving RLs for forest countries, for example by ensuring that all significant activities and pools are included, that adjustments beyond historical emissions are justified or that RLs are revised at agreed intervals.
- Parties could also agree on strengthening the verification of RLs and emission reductions, including by consolidating these processes and demanding independent review and verification.

Countries are well advised to develop strategies that guide their engagement in REDD+ collaboration. Considering the range of options for REDD+ cooperation, both in terms of the transfer mechanisms and the rules and agreements under bilateral and multilateral programs, countries need to carefully evaluate how they can best accelerate the implementation of their REDD+ strategies. Based on the consideration of opportunities and risks here, the best way may be for forest countries and partner countries to work together to test the use of Article 6 transfers through pilot transactions, allowing for experience to be gained and lessons to be learned.

1. Introduction

Meeting the ambitious goals of the Paris Agreement[4] will not be possible without halting deforestation, enhancing forest restoration and reducing agricultural emissions. The land sector can contribute about 25–30 percent of the progress needed to meet the 1.5°C goal formulated under the Paris Agreement,[5] with reducing deforestation providing the largest single opportunity to generate emission reductions.

The entry into force of the Paris Agreement under the United Nations Framework Agreement on Climate Change (UNFCCC) brings new opportunities for countries to cooperate in protecting tropical forests. Its Article 5[6] gives full recognition to activities that reduce emissions from deforestation and forest degradation, conserve forests, sustainably manage forests or enhance forest carbon stocks (together referred to as REDD+), as part of a long-term framework of international climate action.

The Paris Agreement expects *all* countries to contribute to climate change mitigation and requires countries to communicate every five years their climate change plans and strategies in the form of increasingly ambitious nationally determined contributions (NDCs). The Agreement also provides for countries to cooperate in achieving and exceeding the mitigation goals included in their NDCs. In doing so, it replaces the centrally coordinated and interlinked emissions trading architecture of the Kyoto Protocol with a more decentralized approach in its Article 6 and an expectation of more country-driven cooperation. The Agreement also calls on the mobilization of climate finance by developed countries, beyond previous efforts.

With the Paris Agreement's overall institutional framework beginning to emerge, this paper offers options for how forest countries and partner countries could structure their cooperation under the Agreement and discusses the strategic decisions they will need to consider before and during their engagement.

The paper pairs expert analysis with information gathered through stakeholder consultations. With the support of Norway's International Climate and Forest Initiative, the Meridian Institute convened the overall effort and brought together representatives of governments, stakeholder groups and international institutions, including in Washington, D.C., in March 2017 and on the occasion of UNFCCC meetings in Bonn, Germany, in May 2017. The authors also benefited from online consultations and numerous informal conversations and interviews throughout the process.

We begin in section 2 by reflecting briefly on the status of REDD+ after the entry into force of the Paris Agreement, including the implications of Article 6, while section 3 takes a practical look at current options for how transfers under Article 6 may be operationalized. Section 4 looks at how the environmental integrity of emission reduction transfers can be achieved, and section 5 summarizes options for cooperative engagement.

2. REDD+ Cooperation under The Paris Agreement

The Paris Agreement carries across earlier approaches to REDD+ but also opens new avenues for countries to cooperate, allowing them significant flexibility to determine the modalities of their cooperation. It creates a new framework for international cooperation on climate action based on joint efforts to achieve and overachieve NDCs.

The Paris Agreement opens the possibility of linking REDD+ finance to the transfer of emission reductions. Such transfers can be limited to government-to-government transactions or linked to carbon markets. At the same time, the Agreement also brings new challenges, especially because developing countries are now expected to reduce, measure and report emission reductions – an obligation previously held only by developed countries. This adds a layer of complexity in implementing REDD+, not only because emission reductions are now an asset of considerable value for both developing and developed countries, but also because reductions must not be double-counted toward multiple pledges.

2.1 The Warsaw Framework for REDD+ and Article 5

Since the adoption of REDD+ by the UNFCCC in 2013, REDD+ implementation has been governed by the Warsaw Framework for REDD+ (WFR)[7]. The WFR defines common international ground rules that provide a solid basis for collaboration between countries under the Paris Agreement.

Backed by an international agreement on implementation modalities and informed by ongoing pilot transactions, REDD+ is the first sectoral mechanism to pioneer results-based activities and payments at the national level. The WFR gives the land sector a head start over other sectors when it comes to estimating emission reductions, putting in place safeguards and

4 Registered with the United Nations, 4 November 2016, No 54113. Status of Ratification 1 October 2017, 166 Parties. Text: http://unfccc.int/paris_agreement/items/9485.php.

5 S. Roe, et al., *How Improved Land Use Can Contribute to the 1.5°C Goal of the Paris Agreement* (Climate Focus and the International Institute for Applied Systems Analysis, October 2017).

6 Unless otherwise stated, "Article" refers to an article of the Paris Agreement.

7 Decisions 9-15/CP.19.

defining the rules of engagement. Building on earlier decisions, the WFR sets out requirements that forest countries are to meet before accessing results-based finance and guidance that donor countries and funding agencies are to follow.

The WFR addresses REDD+ at a national level, while recognizing that activities and measurements may need to be conducted at a subnational level on an interim basis while transitioning to a national approach.[8] Although no time period was specified for such a transition, this is consistent with the trend in moving from site-specific project activities up to subnational and national approaches. Large-scale implementation and monitoring of deforestation allows countries to manage the displacement of drivers of deforestation (emissions leakage) at a larger scale.

Among the requirements set by the WFR and prior decisions, forest countries are to:

- Establish **forest reference emission levels and/or forest reference levels** (jointly referred to here as "RLs"). The development of an RL is a requirement to access results-based finance, as RLs provide benchmarks of historical emission rates from forests against which countries' performance in implementing REDD+ activities may be compared.
- Undertake **measurement, reporting and verification** (MRV) of emission reductions from REDD+ against RLs. MRV systems are to build on existing systems and be guided by the most recent guidance of the Intergovernmental Panel on Climate Change (IPCC).[9]

Significant funding has been pledged for results-based payments for REDD+ in recent years on the basis of the WFR. This approach has been piloted by the Forest Carbon Partnership Facility (FCPF) and the BioCarbon Fund/Initiative for Sustainable Forest Landscapes administered by the World Bank, as well as bilateral programs such as Norway's International Climate and Forest Initiative and Germany's REDD Early Movers (REM) Program. The United Nations REDD Programme supports countries in achieving the readiness needed to engage in results-based activities, and the Forest Investment Program of the Climate Investment Funds provides finance for the benefit of forests. In addition, the Green Climate Fund (GCF) has recently approved a pilot program for results-based finance for REDD+.

Most existing results-based programs focus on emission reductions to be achieved before 2020 and do not require their transfer in return for payment. To date, only the FCPF Carbon Fund retains the right to request the transfer of emission reductions on behalf of its fund participants (see Box 1). This means that FCPF transactions have the potential to affect the achievement of the NDCs of tropical forest countries, in particular where they refer to emission reductions generated beyond 2020. Whether they are already involved in pilot transactions or contemplate engagement, countries will have to decide what emission reductions – if any – they are willing to swap for financial support and how this will affect their ability to achieve their own NDCs.

8 Decision 12/CP.7, para. 11.

9 Decision 11/CP.19.

Box 1. Transfers of emission reductions under the FCPF Carbon Fund

The FCPF Carbon Fund pilots results-based payments for REDD+ by paying tropical forest countries for generated, verified and transferred emission reductions measured against a reference level. The operations and governance of the FCPF Carbon Fund are based on the FCPF Charter.[10] Countries that seek support from the FCPF Carbon Fund for their REDD+ programs have to comply with the requirements of a Methodological Framework. A final contract – the Emission Reductions Payment Agreement (ERPA) – incorporates the adopted FCPF ERPA General Conditions.[11]

The FCPF requires the transfer of title to those emission reductions. The ERPA General Conditions specify that "any ER Transfer shall include the transfer of all rights, titles and interests attached to such transferred ERs."[12] A number of sovereign investors have agreed not to use the aquired emission reductions for sale or compliance purposes, but instead to cancel them (Tranche B Participants). Others (Tranche A Participants) have retained the right to use the emission reductions toward their NDCs. In some cases, the NDC states that this is their intent (e.g., Australia); in other cases, the NDC states that no international offsets will be used (e.g., United States).

Article 5 transposes the WFR into the Paris Agreement and anchors results-based finance in the context of climate finance and mitigation action. Most existing results-based payment programs apply the rules of the WFR and complement them with program-specific criteria. The WFR does not contemplate the transfer of emission reductions.

2.2 Cooperation under Article 6

Article 6 provides options for countries to voluntarily transfer emission reductions; those reductions may then be used by the acquiring countries to achieve or even go beyond their NDCs. These options supplement results-based finance and build upon the WFR.

10 https://www.forestcarbonpartnership.org/charter-and-rules-procedure

11 https://www.forestcarbonpartnership.org/carbon-fund-0

12 From ERPA General Conditions. Title to ERs in the General Conditions is defined as "…the full legal and beneficial title and exclusive right to any Contract ERs and/or Additional ERs generated under the ER Program within the ER Program Accounting Area and contracted for under the ERPA."

Sharing emission reductions among cooperating countries opens new opportunities to mobilize finance for mitigation, increasing the amount of funding available and drawing from a wide variety of sources, instruments and channels and not only from public funds, as called for in Article 9.

Two options in Article 6 relate to the transfer of emission reductions:[13]

- **Cooperative approaches under Articles 6.2–6.3.** The approach formulated under Article 6.2 allows countries to define the modalities of their cooperation without relying on the UNFCCC and states that the resulting "internationally transferred mitigation outcomes" (ITMOs) will be recognized under the accounting of NDCs. Article 6.2 establishes mandatory principles for sustainable development, environmental integrity and transparency, including in governance, and the application of robust accounting to ensure, among other things, the avoidance of double counting.
- **The Article 6.4 mechanism.** Article 6.4 facilitates countries and authorized private or public entities in generating and sharing emission reductions while also promoting sustainable development.[14] Although lessons from the Kyoto Protocol's Clean Development Mechanism (CDM) may help devise the necessary rules and tools (such as a common registry and units), the new mechanism will have to go beyond offsetting and result in overall mitigation. Article 6.4 will ensure the quality of emission reductions and will be implemented under the governance of the UNFCCC.

Article 6 expects cooperating countries to seek "higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity" (Article 6.1). This calls for such cooperation to not merely reduce the costs of mitigation but also to prompt more action.

Article 6 is often associated only with carbon markets and the issuance of tradable carbon credits. Indeed, an original impetus behind Article 6 was to incentivize the private sector in mitigation action. The scope of the article is broader, however, and can encompass transfers under any form of cooperation between governments, including where these result only in infrequent transfers. Such reductions may not be issued as credits but instead recorded only as accounting values.

13 Articles 6.8–6.9 define a framework for nonmarket approaches to promote mitigation and adaptation ambition, but it is unlikely to involve transfers.

14 There is debate in the negotiation of the Article 6 guidance whether ITMOs cover any transfers under Article 6, including those generated under Article 6.4. We seek to not enter this debate by referring only to the transfer of emission reductions (which should be read to also include increases in removals).

2.3 Cooperation under Article 4.16

Article 4.16 recognizes the possibility of two or more countries submitting joint NDCs. Such joint NDCs would be based on a formal agreement communicated to the UNFCCC Secretariat that allocates emission levels to each country. The Article allows the European Union (EU), as a regional economic organization, to communicate a joint NDC for its members, but also allows for new and innovative partnerships outside of such organizations. Under Article 4.16 countries can decide how to fulfil joint NDCs and how to account for the outcomes. Article 4.17 clarifies, however, that each country remains responsible for its emission levels.

3. Key Decision Points

Countries will need to make a number of decisions when cooperating under the Paris Agreement. Such choices concern countries' ability and willingness to transfer or acquire emission reductions and use them for NDCs, their choice of mechanism for any transfers to be conducted, and the extent to which they engage the private sector in REDD+ implementation.

3.1 Results-based versus transfer-based finance

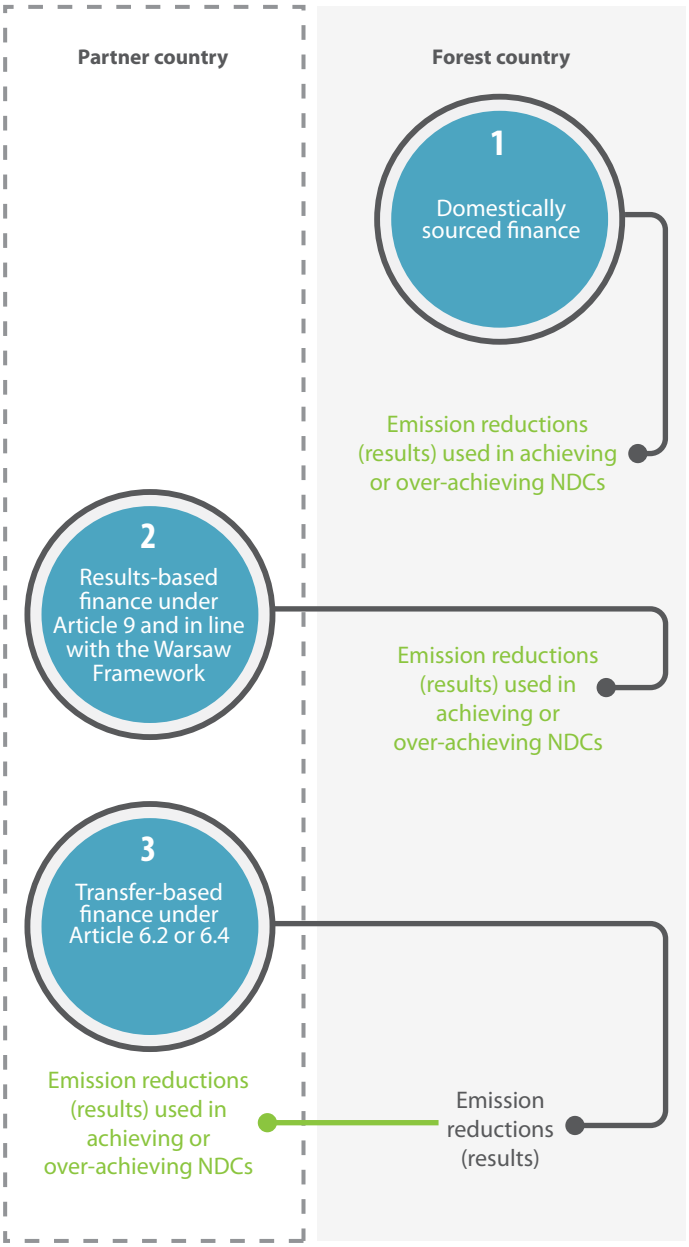
In addition to being financed via domestic sources, REDD+ activities can benefit from international support in the context of the Paris Agreement through two basic routes (see Figure 1):

- **Results-based finance,** in line with Article 5 and the WFR, for which payment is made in return for results in the form of emission reductions. These reductions may remain in the forest country and may be used toward the achievement or overachievement of that country's NDC.
- **Transfer-based finance,** a form of results-based finance wherein payment is made for the transfer of emission reductions. Transfer-based finance can be made under either cooperative approaches in the context of Article 6.2 or the Article 6.4 crediting mechanism.[15] Transferred emission reductions under Article 6 are available for use by the partner country in achieving the conditional or unconditional parts of its NDC.

Article 6 specifies that such transfers of emission reductions need to be made in accordance with an accounting framework currently under negotiation by the UNFCCC. This framework will need to be fully consistent with the wider accounting of NDCs to be determined under Article 4.13.

15 "Transfer-based finance" is not a term used in the Paris Agreement. We use it as shorthand for transactions that involve the transfer of emission reductions in return for payment.

Figure 1. REDD+ financing and emission reductions



While grants and results-based forms of international finance are already well established and familiar in the context of REDD+, little experience has been gained with transfer-based finance. The FCPF Carbon Fund allows for it, although transfers remain at the negotiation stage and have not yet taken place.

Table 1 summarizes the main features of transfer-based and results-based finance. In practice, countries may chose a mix of the two approaches. Results-based finance could also be integrated in a joint NDC under Article 4.16, although this would require additional consideration of feasibility, risks and implementation arrangements.

Table 1. Results-based finance versus transfer-based finance

Aspects	Results-Based	Transfer-Based
Type of arrangement	Article 5/WFR	Article 6.2 cooperative approach Article 6.4 approval and issuance
International transfer of emission reductions	No	Yes
Accounting of mitigation outcomes	Accounted against the forest country's NDC (except for any units potentially canceled)	Accounted against the partner country's NDC (except for any units potentially canceled); corresponding adjustments apply
NDC achievement risk and risk mitigation	Does not imply an NDC achievement risk (except for any units potentially canceled), unless it is embedded in a joint NDC under Article 4.16	Implies an NDC achievement risk; risk may be mitigated through contractual arrangements (e.g., a call option or conditional sale)

3.2 Article 6.2 versus Article 6.4

The Article 6.2 framework for cooperative approaches and the Article 6.4 crediting mechanism offer countries the opportunity to count mitigation achieved abroad toward their own NDC goals or to mitigate beyond the pledges made in their NDCs.

Article 6.2 allows participating countries to flexibly define the terms of their cooperation in the generation of emission reductions that can be transferred. Cooperation under this article is, in principle, open to all forms of climate action, across all countries, activities, emission sources and sinks. Countries can engage in partnerships in accordance with their own needs, design, governance structures and laws.

Article 6.4, in contrast, establishes a UNFCCC-governed, centralized, international crediting instrument. Under the modalities of Article 6.4, emission reductions can be generated by applying an assured standardization through internationally agreed and regulated crediting frameworks. Countries differ in their views regarding the inclusion of REDD+ in the Article 6.4 mechanism, due to ingrained concerns by some regarding permanence, MRV and the possible displacement of other emissions-reducing activities. Considering this opposition, transfers of emission reductions from REDD+ may be limited to Article 6.2.

Table 2 summarizes the differences in governance between UNFCCC-ruled and country-ruled cooperation.

Table 2. Governance of cooperative approaches

Aspects	Article 6.2	Article 6.4
Type of arrangement	Article 6.2 and Article 5/WFR	Article 6.4 crediting mechanism and Article 5/WFR
Carbon credits issued	Not necessarily, depends on the arrangement between countries	Most likely for Article 6.4
Guidance and criteria applicable	• Article 6.2 guidance • WFR • Criteria specified in the direct bilateral agreement	• Article 6.4 modalities • WFR • Criteria specified in the direct bilateral agreement

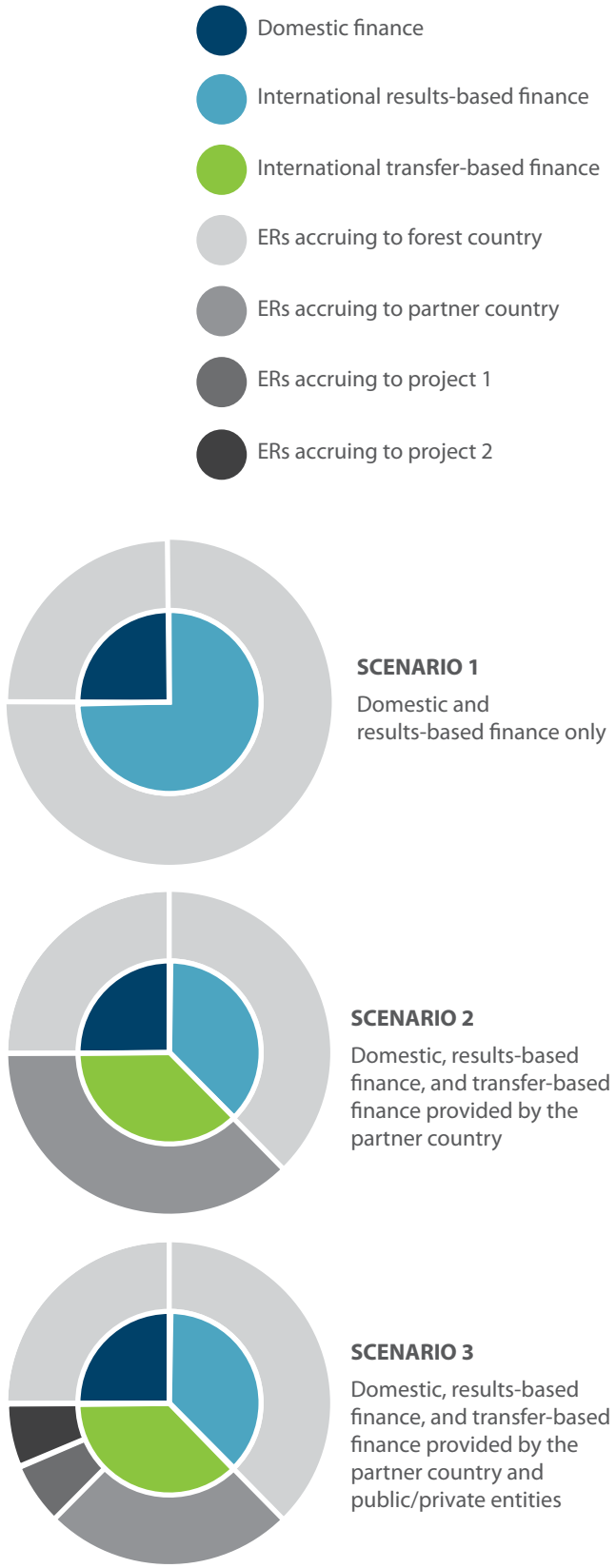
3.3 Extent of private-sector engagement

Private-sector action will be essential for implementing REDD+ strategies. Whether through efforts to eliminate deforestation from agricultural supply chains or direct investments in forest restoration, the success of REDD+ depends on cooperation between the public and private sectors. In this context, countries will have to decide whether they wish to authorize private-sector entities to directly participate in REDD+ transactions. Such participation could be based on the authorization to implement projects "nested" in national RLs (e.g., voluntary carbon market projects) or on the link between national REDD+ programs and established emission trading systems (e.g., the California Cap-and-Trade system or the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) program). Countries would have to establish rules on how to allocate emission reductions to authorized projects. If direct private-sector transfers are authorized, emission reductions would have to be issued as standardized carbon credits. Carbon credits generated from nested projects or from national REDD+ programs could be supplied to partner countries or private entities seeking to purchase international credits to meet corporate or legal compliance goals.

Figure 2 shows three illustrative scenarios of how emission reductions may be shared between forest countries, partner countries and public and private entities, where they participate (illustrated in projects 1 and 2), in relation to the blending of domestic and different forms of international finance in support of a REDD+ program.[16] The inner circles illustrate the sources of finance; the outer circles illustrate the allocation of emission reductions (ERs).

16 For simplicity, the scenarios assume emission reductions are shared proportionately to the sources of finance, although the variety of contractual arrangements makes this unlikely in practice.

Figure 2. Illustrative scenarios for blending sources of finance



Linking REDD+ to carbon markets also requires linking to tracking systems in the form of greenhouse gas (GHG) transaction registries. Such registries are essential for any carbon market program, in order to establish, evidence and track the ownership of carbon credits and avoid double counting.

Table 3 summarizes the main features of transactions that are limited to governments and those that include a link to private-sector markets.

Table 3. REDD+ transactions and the private sector

Aspects	Government-to-Government	Private-Sector Markets
Type of arrangement	Article 6.2 transfer-based Article 5 results-based	Operating under Article 6.4 and authorized by countries; possible link to carbon markets authorized by third countries
Issuance of tradable carbon credits	Optional	Yes
Tracking of emission reductions or carbon credits	Based on data management systems or simple registries	Necessary at the level of the project or unit; trading registries necessary
Legal framework	Agreements between countries	Recognition of units under local law

4. Environmental Integrity

UNFCCC negotiators are in the process of negotiating guidelines that will avoid the double counting of transferred emission reductions against more than one NDC. To address concerns regarding the quality of emission reductions, additional criteria may be agreed upon in the context of bilateral or multilateral transactions. In the case of REDD+, such criteria may include requirements for the formulation of RLs and the verification of RLs and emission reductions. Where partner countries agree on such requirements, the negotiated support may involve assistance for the achievement of the agreed-upon standards.

Countries strive in their REDD+ programs to ensure the environmental integrity of emission reductions. The WFR establishes guidance for setting RLs and applying MRV when estimating emission reductions, as well as for technical assessments designed to facilitate technical improvements in RLs and MRV over time. The WFR also provides for countries to report on how they are implementing the Cancun safeguards for REDD+[17]. This guidance is more elaborate than any currently in place for other sectors or for NDCs that rely on business-as-usual (BAU) emission scenarios at the national level.

To ensure the environmental integrity of transactions under Article 6, countries are currently negotiating guidance to avoid double counting of emission reductions. Additional criteria may be agreed upon in relation to environmental integrity, at least in the form of principles. Any such guidance can also be expected to apply to REDD+.

4.1 REDD+ as a subset of action under NDCs

Countries with significant forest-related emissions generally include these emissions within the scope of action foreseen under their NDCs. However, more specificity is needed in NDCs to understand their coverage – and how this coverage may change as countries improve data or add activities, carbon pools and GHG gases to their GHG inventories. Methods used for NDCs and REDD+ RLs should be consistent.

All developed countries and most emerging economies, including for example Brazil and Mexico, indicate that their NDCs apply to all GHG emissions and carbon removals covered in their GHG inventories. Most other developing countries that are major forest countries also appear to include the land sector (e.g., forestry and agriculture) in their NDCs, although it is not always explicit how it is covered.[18] Most of these countries include at least a description of existing REDD+ programs, and many include specific forest-related targets.[19]

To avoid countries' REDD+ emissions being overestimated or underestimated in comparison with their NDCs, the accounting for REDD+ via RLs and for NDCs via GHG inventories needs to be consistent in terms of methods, data and assumptions.[20] Only a few countries clarify in their NDCs how emission reductions from REDD+ are to be accounted against NDCs. There also remain many variations and uncertainties in the comprehensiveness of land-sector emissions in GHG inventories (see Box 2).

17 The Cancun safeguards were agreed to at the 16th session of the Conference of the Parties to the United Nations Framework Convention on Climate held in Cancun in 2010 and formulate measures to be taken into account when implementing REDD+ that protect against environmental and social risks while promoting benefits.

18 D. Lee and M. Sanz, *UNFCCC Accounting for Forests: What's In and What's Out of NDCs and REDD+* (Climate and Land Use Alliance, 2017) (updated).

19 These may include, for example, goals for overall forest cover, forest conservation and afforestation, reforestation and restoration, typically quantified in terms of hectares of forest.

20 This is a requirement set by Decision 12/CP.17, para. 8.

The scope of land-sector emissions covered by NDCs can be smaller than the scope covered by GHG inventories, as many countries will in practice limit their NDC accounting to emissions sources that are relevant to their planned interventions. Also, some countries may not include forests in their NDCs (e.g., Bangladesh, Fiji, Liberia and Nigeria, while Belarus, the Republic of Korea and Thailand indicate that decisions in this regard have not yet been made). Other countries omit specific forest-related activities from their NDCs (e.g., India establishes a target forincreasing removals but does not mention deforestation or forest degradation).[21]

The emissions covered by REDD+ activities through RLs generally make up a subset of the wider land-sector emissions that countries include within their NDCs, as shown in Figure 3. The scope of emissions captured under REDD+ RLs typically only includes the most significant and less uncertain forest fluxes. For example, to date, practically all RLs cover deforestation,[22] but less than half include forest degradation and regrowth and rarely any include sustainable forest management and conservation. They also tend to exclude pools other than above- and below-ground biomass, as well as gases other than carbon dioxide (nitrous oxide and methane), due to a lack of data.[23]

In addition, there is generally a significant difference between GHG emissions from the land sector reported by countries and reported in independent estimates by scientists. The most recent IPCC Assessment Report suggests that net (human-induced) land use emissions amounted to about 4.0 gigatons of carbon dioxide equivalent (Gt CO_2e) between 2000 and 2009, while countries reported 0.9 Gt CO_2e during this timeframe. This discrepancy may be related to, among other things, different interpretations of "managed lands" that should be covered and incomplete reporting due to insufficient data or capacity.[24] It will be essential to understand this discrepancy for the Global Stocktake,[25] but it is also relevant in the context of national climate strategies and cooperative approaches.

4.2 Factors impacting environmental integrity

The core condition of environmental integrity when conducting transfers is that, if an acquired emission reduction allows a country to emit more, this must be matched by a reduction of at least that quantity of emissions in the transferring country.

21 Lee and Sanz, 2017.

22 With the exception of Malaysia.

23 Lee and Sanz, 2017.

24 Ibid., and Federici, et al., 2017.

25 Ibid.

Box 2. Accounting for land-sector emissions[26]

NDCs raise a number of issues regarding how countries intend to estimate emissions from the land sector:

- Most countries confirm they intend to use the IPCC guidelines; however, there are differences as to whether the 1996 or 2006 guidelines will be used. Also, not all countries indicate their intention to use the 2003 IPCC Good Practice Guidance for Land Use, Land-Use Change and Forestry.
- Several countries indicate they will use specific approaches, including the net-net approach, the reference level approach or a combination of these.
- Some countries clarify that their targets are subject to further guidance on accounting for land-use emissions.
- Although coverage is expected to increase over time, many developing countries can be expected to report emissions and removals on the basis of only a subset of activities, pools and gases, given a lack of capacity and systems to fully report forest-related carbon fluxes.
- Historically, developing countries have reported their GHG emissions less frequently and have not benefited from independent assessments.

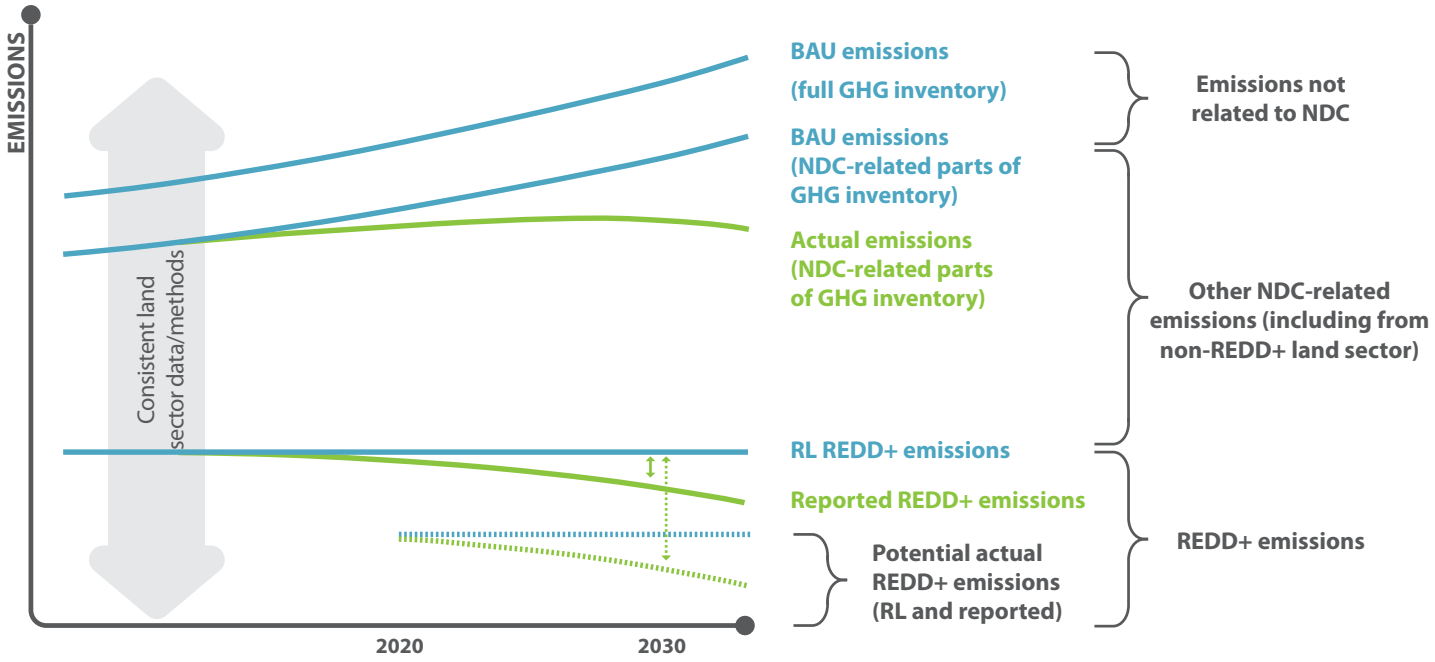
To safeguard this, two aspects need to be ensured:[27]

- Robust tracking and accounting of emission reductions, in that each emission reduction is not double counted toward multiple NDCs.
- The quality of emission reductions that are transferred, in that they really occur as stated and have a lasting mitigation effect.

26 Based on S. Federici, et al. *GHG Fluxes from Forests: An Assessment of National GHG Estimates and Independent Research in the Context of the Paris Agreement* (Climate and Land Use Alliance, 2017). Also Lee and Sanz, 2017.

27 Articles 4.13, 6.2 and 6.5 all require the avoidance of double counting. Decision 1/CP.21, para. 37, provides a basis for quality in the context of the Article 6.4 mechanism. For a discussion of these issues, see A. Howard, et al., *Features and Implications of NDCs for Carbon Markets* (Climate Focus, 2017); and L. Schneider, et al., *Robust Accounting of International Transfers under Article 6 of the Paris Agreement* (German Emissions Trading Authority, 2017).

Figure 3. Reporting and accounting for REDD+ and NDCs



Guidance on the **robust tracking and accounting** of emission reductions is being negotiated under Article 6 on the basis of "corresponding adjustments."[28] In effect, these adjustments subtract emissions from the acquiring country's GHG inventory and add them back to the transferring country's GHG inventory (since the reduction is now used by the acquiring country). This ensures that transfers are taken into account when assessing the achievement of NDCs.[29]

Countries are still negotiating whether adjustments would be needed if a sector does not fall under a country's NDC. Technically such an adjustment would not be necessary, but because this may disincentivize countries from including sectors in their NDCs, some countries are calling for adjustments to still be required in such cases. This would treat all transfers the same way, thus eliminating any such disincentive.

Another issue still under negotiation is the treatment of countries that propose to account for emissions in the target year of their NDC only. There are indications that the majority of countries sees such accounting as unrepresentative and expects trading across years leading to adjustments to reflect emission reductions and transfers in GHG inventories.

28 Decision 1/CP.21, para. 36. This is specified in the context of Article 6.2, however Article 6.5 sets a similar requirement for the Article 6.4 mechanism. Countries' views differ on whether transfers originating under Articles 6.2 and 6.4 should be subject to the same set of accounting rules.

29 These adjustments would not change the inventory itself, as this must remain intact as a record of a country's emissions and removals, but could be recorded in a parallel table. The adjustments may alternatively be made to the emissions allowed under NDCs (emission "budgets"), which is more akin to the issuance of carbon credits and was the approach used for Kyoto Protocol accounting.

In the context of REDD+, the **quality of emission reductions** is determined by the appropriateness of the RL – the baseline emissions scenario – and the MRV applied when estimating reductions in emissions below the RL. This RL may reflect BAU emissions or a lower, more ambitious expectation of emissions over time.

The dashed lines in Figure 3 show a simple case in which the actual emissions from forests are lower in reality than those projected by the RL. This could arise if historical forest emissions do not represent future emissions adequately or if data and methods change over time. Such differences can never be fully avoided – how acceptable they are will depend on their degree and their potential for impact.

If the RL is an input to BAU emission projections for the forest country's NDC, an RL that significantly overestimates projected emissions compared to actual emissions would raise the BAU scenario and also the NDC target itself, where this is set relative to BAU emissions (as is the case for most forest countries).

A significantly overestimated RL may also result in overestimated emission reductions, as shown by the dashed arrow in Figure 3. This overestimation may lead to the forest country meeting its NDC goals without achieving real emission reductions. If these overestimated reductions are transferred, the required accounting adjustment would compensate the relaxation of the NDC target in the forest country by adding back the transferred reductions to the inventory. However, from the perspective of the partner country, such an acquisition would import the

overestimated emission reductions. If these are used against its NDC, they would displace more domestic mitigation effort than had originally been achieved in the forest country.[30]

A significantly overestimated RL therefore has the potential to weaken levels of mitigation effort and increase aggregate global emissions. If domestic or international results-based finance is used, any rise in emissions would be contained within the forest country. Allowing for transfers, however, could enable the impact to spread also to partner countries.

4.3 Potential measures to ensure quality

Where countries engage in transfer-based cooperation, additional quality criteria may be agreed upon to safeguard the environmental integrity of the transferred emission reductions. Such criteria may require the inclusion of all significant pools in the RLs, a minimum frequency for the revision of RLs and criteria for adjustments above historical average emissions. Additional requirements may also apply to the verification of RLs and emission reductions, which would go beyond the expert assessment prescribed under the WFR.

Current negotiations regarding the implementation of Article 6.2 are considering whether further guidance is needed to ensure the quality of emission reductions, and if so what that guidance might be. The discussions are not sector specific acknowledging that quality risks apply to all sectors. The same stringency would be expected from emission reductions in any sector operating in the context of Article 6.2. The rules for the Article 6.4 mechanism are also being developed and can be expected to be more elaborate.

The WFR requirements for RLs and MRV, as well as safeguards and transparency, put REDD+ in an advanced position compared to other sectors. However, the country-driven approach to RLs, the desire to maximize potential results-based finance and the facilitative nature of technical assessments may mean that countries want to agree on additional measures to ensure the quality of emission reductions when transfers are involved.[31]

The WFR recognizes that results-based actions may be eligible in future market-based instruments and raises the possibility of "any further specific modalities for verification consistent with any relevant decision of the Conference of the Parties."[32]

30 The inflated emission reductions from the forest country would be "laundered" through the transfer and displace a potential emission reductions in the acquiring country.

31 This is already existing practice in current REDD+ programs, such as the FCPF or REM, which have put in place criteria that further define WFR rules as well as additional requirements.

32 Decision 14/CP.19, para. 15.

This leaves the way open for further quality processes for emission reductions from REDD+ in the context of transfers under Article 6.

Any additional measures, beyond those already set through the WFR, may increase the technical and capacity burdens on forest countries. When and if such measures are agreed upon, partner countries could provide long-term support to forest countries in their implementation of these measures and assurance of quality in the reductions. A joint and collaborative effort to ensure accurate measurement and accounting reflects the shared interest of countries that cooperate under Article 6.

Two areas in which further measures may be useful in strengthening the quality of emission reductions are the definition of RLs and verification processes. With regard to the establishment of **reference levels**, REDD+ programs or negotiating parties may consider the following points:

- **Require the inclusion of significant activities, pools and gases.** This would go further than the current WFR requirement, which calls for countries only to justify their omissions. A level of "significance" could be defined, to minimize the risk that RLs may be overestimated. Some omissions may themselves lead to RLs being conservative, where there is sufficient certainty that their estimation and inclusion would lower the RL.
- **Set requirements for the revision of RLs.** While the WFR leaves open the issue of frequency of revisions, requiring a minimum frequency for reviewing the validity of and revising RLs may help to ensure the relevance of those RLs to changing social, economic and policy circumstances.
- **Establish criteria for the adjustment of RLs above or below historic averages.** These adjustments would take account of national circumstances, in particular where future expectations of emissions deviate from historical trends. Requirements could extend beyond the WFR's rules by requiring adjustments to be evidence-based and take into account policy goals and commitments to reduce future emissions.[33]
- **Set requirements for estimating uncertainty in emission reductions.** This could clarify the degree of uncertainty in underlying measurements and their impact on reported results. Such requirements are not currently addressed in the WFR but could facilitate technical improvements that lessen uncertainties in the estimating emission reductions.

33 A recent example is guidance from the GCF for applicants to the pilot program for REDD+ results-based payments. GCF, *Green Climate Fund Support for the Early Phases of REDD-Plus*, GCF/B.17/16 (Green Climate Fund, 2 July 2017).

With regard to **verification processes**, current expert assessments are nonbinding and largely for the purpose of building capacity.[34] Experts may recommend improvements, which may or may not be taken into account in the final determination of emission reductions achieved. In the case of RLs, assessment teams work under the coordination of the UNFCCC Secretariat. For the verification of emission reductions, information is voluntarily provided through a technical annex to the country's biennial update report and subject to additional assessment reports under the international consultation and analysis (ICA) process.[35]

Specific measures to strengthen technical assessments and ensure verification of results in this regard may include the following:

- **Agreed on verification process for the determination of RLs.** The verification of RLs could be informed by a review of forest management levels of developed countries under the Kyoto Protocol. It could also incorporate lessons from jurisdictional verification procedures developed for the voluntary carbon market (e.g., the jurisdictional program of the Verified Carbon Standard (VCS)). Any process could take into account the findings of the technical assessment of RLs under the WFR. Any verification should include a review of the full information backing RLs, as well as steps for agreeing to and implementing improvements as part of the finalization of RLs and, where necessary, the planning of further improvements.
- **Extend RL verification processes to cover emission reductions.** Such verification could build on the process used for the technical assessment of RLs by including subsequent steps for the verification of emission reductions. Verification could be made a prerequisite to the transfer of emission reductions and include steps for agreeing to and implementing improvements as part of the finalization of emission reductions and, where necessary, the planning of further improvements.

In addition to the measures discussed above, countries could agree to reduce the estimates of emission reductions by a set discount. This could provide a simple solution for reducing the residual risk of emission reductions being overestimated. Such discounts are also an application of the concept of "overall mitigation," which is already a requirement of the Article 6.4 crediting mechanism and can lead to raising ambition as called for by Article 6.1.

To contribute to raising ambition, the proportion of emission reductions constituting the overall mitigation needs to either be cancelled from the accounting system or reported to the UNFCCC as an overachievement of an NDC.

34 These processes are set out for RL and emission reductions, respectively, in Decision 13/CP.19 and its annex, and Decision 14/CP.19.

35 Decision 2/CP.17, annex IV.

4.4 Operationalizing transfers and reporting

Countries wishing to transfer or acquire emission reductions – from REDD+ activities as well as from other sectors – need to implement certain systems and reporting consistent with guidance provided through the UNFCCC.

Emission reductions will need to be tracked in a robust manner to ensure the integrity of their accounting for transfers and NDC achievement.[36] At a minimum, forest countries and partner countries will need to record their transfers as accounting values. These transfers would need to be uniquely identifiable, in particular in situations where they may be transferred further to other countries. Information on the corresponding adjustments made for these transfers will need to be reported under the Paris Agreement's transparency framework (Article 13).

Countries issuing and transferring emission reductions in the form of carbon credits – as well as the countries acquiring them – may implement and link electronic registry systems for tracking purposes.[37] This is most likely necessary for countries that are involving private-sector entities in REDD+, in particular where credits are fungible and can be traded on carbon markets. Such countries may be implementing registries anyway in the context of domestic emissions trading or carbon tax instruments.

Reporting requirements under the transparency framework are currently under negotiation through the UNFCCC and will need to integrate information arising from the use of Article 6. This information may include:

- Activities involving transfers in the context of Articles 6.2 and 6.4, including for REDD+, and a demonstration of how these fulfil the accounting and other requirements of Article 6.
- Systems and processes the country has implemented to track its transfers.
- Corresponding adjustments applied under the Article 6 accounting rules.
- The summary status of progress being made toward NDC achievement, and the status of NDC achievement after the NDC period has ended.

All countries are to submit a "national inventory report" and "information to track progress made in implementing and achieving its NDC" at least biennially.[38] This

36 It is currently unclear as to what extent the Article 6.2 accounting guidance will address tracking.

37 For more detail on REDD+ registries, see Part V of The World Bank Group, *GHG Trading Registries: Guidance on Regulation, Development and Administration* (Washington, DC: World Bank Group 2017).

38 Article 13.7 and Decision 1/CP.21, para. 90. The timing is not a requirement for least-developed countries and Small Island Developing States, which may submit the information at their discretion.

information is to be subject to a "technical expert review" process, which is to include a consideration of the "implementation and achievement" of NDCs (Articles 13.11 and 12).

5. Structuring Transactions

Countries have significant flexibility to design and structure the modalities of their cooperation in the context of bilateral or multilateral agreements that support cooperative REDD+ transactions. As they continue to develop their REDD+ strategies, countries will need to consider how they can balance means of finance and the sharing of the resulting emission reductions, while also weighing the range of available programs and policy instruments and the implications of these choices for how they can best express ambitious mitigation pledges in their NDCs.

Considering the range of options – both in terms of basic mechanisms but also with respect to bilateral or multilateral program rules and agreements – countries have to carefully evaluate how they can best use the available options to ensure and accelerate the implementation of their REDD+ strategies.

5.1 Why and when to engage?

The need to determine how emission reductions should be shared among cooperating partner countries provides an opportunity to accelerate the process of defining and implementing both REDD+ and NDCs. To do this, new opportunities and complexities need to be quickly understood. The development of an engagement strategy can help to accelerate a more complete integration of REDD+ into national climate strategies.

Introducing transfers of emission reductions into the financing mix can bring new dimensions for REDD+ by shifting the cooperative exchange between countries from one based primarily on funding to one based on sharing emission reductions and supporting each other in setting and achieving ambitious NDCs. By putting forest countries and investor countries on the same level, Article 6 breaks the dynamic of dependency that can often characterize traditional forms of finance and has the potential to lead to more constructive and long-term partnerships that are beneficial to all countries.

Table 4. Benefits and risks of REDD+ transfers under Article 6

	Tropical Forest Countries	Partner Countries
Arguments in Favor of Article 6 Engagement	Forest countries can raise **additional funds** for mitigation activities through transfer-based finance. Considering the additional stringency and value, it is expected that (1) new markets can be accessed, and/or (2) a higher price can be negotiated under transfer-based than results-based finance. Through links with emission trading (e.g., CORSIA) and carbon tax schemes, participation in Article 6 may help **access additional markets and buyers**. Transfer-based finance may expand existing partnership through **broader cooperation packages,** which may include technical assistance, capacity building, and transactional or political support.	Partner countries can **mitigate the risk of not achieving their NDCs**. They may use the transferred emission reductions toward their NDCs or for other purposes, such as voluntary cancelation or meeting other finance or climate commitments. Article 6 transactions may yield **higher-quality emission reductions**. Partner countries will also directly or indirectly support the establishment of capacity and more rigorous monitoring systems in tropical forest countries.
	For both types of countries, Article 6 enhances the chances for full integration of REDD+ into national climate strategies and the development of a strategy on how REDD+ can contribute to national NDCs.	
Risks Associated with Article 6 Engagement	Countries may put at **risk their achievement** of domestic and international climate targets. The generation of emission reductions may require additional rigor in RLs and MRV for REDD+ and may require independent verification. This will **add costs to REDD+ implementation** and require additional capacities.	Transferring emission reductions **may be more expensive** than rewarding emission reductions through results-based finance. Some countries may lack the capacity to engage in Article 6.2 transactions and require **significant partner involvement and assistance**.
	For both type of countries, Article 6 increases the risks of nonachievement of NDCs if REDD+ emission reductions are relied upon and not realized or not delivered.	

The appropriate balance of financing and sharing of emission reductions will depend on many factors. Forest countries are likely to consider the extent to which they themselves require the emission reductions for their own NDC achievement, which will in turn depend on factors such as the nature and degree of their NDC pledges; the opportunities, effort and cost involved in reaching them; as well as the availability and terms of international support. Partner countries are likely to consider factors such as their own need for emission reductions, whether to meet their NDCs or to fulfil goals that go beyond their NDCs.

Table 4 summarizes what many countries will see as the benefits and risks of engaging in REDD+ transactions involving transfers under Article 6.

As a result of these considerations, countries are well advised to develop a financing and engagement strategy to guide their engagement with potential partner countries. The development of a strategy should be informed by an analysis of the costs of emission reductions and the resulting financial and nonfinancial support needs of forest countries. Partner countries will have to determine the amount of emission reductions they are interested in acquiring and how these emission reductions relate to the achievement or overachievement of their NDCs. Countries will also have to decide how private and public entities will be involved in REDD+ and the potential role of Article 6.4, if applicable to REDD+. This includes also the role of transfers to nonstate actors outside of Article 6 (e.g., under CORSIA).

5.2 How to allocate benefits and risks?

The Paris Agreement opens an avenue for tailored and negotiated approaches to cooperation between countries or within a multilateral program. The fact that emission reductions transacted under Article 6.2 do not need to go through a centralized issuance process gives contractual parties a great deal of flexibility to structure the transaction according to their individual and mutual needs.

Cooperation agreements can define the relationship between the contracting parties and provide a basis for both facilitating action and protecting vital country interests. Contractual arrangements underlying financing for REDD+ activities could address a variety of issues, including the following:

- **The allocation of emission reductions for transfer.** Contracts that specify the allocation of emission reductions would regulate how and when those reductions are shared between forest countries and partner countries and potentially with participating public and private entities. Reductions that are not transferred would remain in forest countries and could be used toward the achievement of their NDCs. The delivery of emission reductions to the partner country could spread over various measurement and verification periods. Upfront payments could help to overcome financing challenges.
- **The integration of specific, location-based REDD+ interventions.** Transfers could be linked to emission reductions achieved at a project or program level nested within a national or subnational RL. They could also involve subnational jurisdictional approaches that will eventually be nested in national RLs. This may be useful in allowing participants in such projects greater predictability over the emission reductions they receive and clearer incentives for their engagement in location-specific activities. It also enables the transfer of emission reductions and the mobilization of finance before national systems are in place.
- **Priority use by the forest country.** The contract could help to ensure that sufficient emission reductions remain with the forest country for use toward their NDCs. This priority could be ensured through:
  - ***Reserve thresholds*** – i.e., a quantity or proportion of emission reductions reserved for the forest country. Transfers would only occur for emission reductions generated beyond the threshold.
  - ***NDC achievement conditions***, which could specify that transfers are to take place only after the achievement of the forest country's NDC has been demonstrated or become sufficiently certain. However, this may imply that transfers are only possible toward the end of the NDC achievement period and delay payment.
- **The use of emission reductions.** The use of the emission reductions toward the NDCs of either forest countries or partner countries may be limited to, for example:
  - ***Use by a specific country or countries***, which could, for instance, limit emission reductions to use by only the forest country and partner country, thus prohibiting further transfers from either country to third parties.
  - ***Use in specific NDC periods***, which could, for instance, limit the use of reductions to the NDC period in which the emissions were reduced, or perhaps the current and next NDC periods. This would prohibit or limit the banking of reductions from one NDC period to subsequent periods.
  - ***Use in specific domestic compliance instruments***, which could reflect the acceptance of emission reductions for compliance purposes under, for instance, a trading or carbon tax system in the partner country. Emission reductions would be legally defined certificates – which are familiar from the CDM or VCS, for example[39] – with characteristics that facilitate their transfer and tracking.[40]

39 Emission reductions are issued under the CDM as certified emission reductions (CERs), which is one of six unit types defined by the Kyoto Protocol, and under the VCS as verified emission reductions (VERs). Units under crediting systems are typically referred to as "credits" and those under trading systems as "allowances."

40 An example of a carbon tax system that accepts REDD+ credits is the recently adopted Colombian carbon tax.

- **The cancelation of emission reductions.** Agreements could also specify that a quantity or proportion of emission reductions is to be canceled by the forest country or by the partner country after it acquires the emission reductions. This may be for the purpose of ensuring that the cooperation achieves a degree of overall mitigation (beyond offsetting).
- **Transactions related to particular activities.** Countries could also engage in Article 6.4 transactions covering particular REDD+ activities (e.g., restoration). This may be useful if, for example, emission reductions from specific activities are considered to be more accurately measurable or are preferred by partner countries for other reasons.

Many of these issues address how emission reductions are to be shared and the balance of priority that is decided for the countries. This is particularly relevant where forest countries have made conditional pledges in their NDCs to make emission reductions through REDD+ that are dependent on international support. Many forest countries – as diverse as Colombia, the Democratic Republic of the Congo, Indonesia, Mexico and Vietnam – have included such conditional pledges and will need to retain rights to sufficient emission reductions to meet them.[41]

6. Summary of Engagement Options

Forest countries and partner countries can chose from among a multitude of options on how to structure their cooperation in support the implementation of national REDD+ strategies. Several primary options are set out here, although different nuances and implementation arrangements can result in further variations. Also, the options are not exclusive and can be combined to maximize the delivery of emission reductions.

Option 1: Countries continue to rely on results-based finance on the basis of the WFR.

Some countries may prefer to continue to rely on the WFR and current approaches to REDD+ financing. Results-based finance could be blended with domestic finance sources as well as support for the upfront costs of implementing REDD+ programs through the GCF, official development assistance (ODA) or other grant finance. This option has the advantage that all emission reductions would be retained by the forest country and could be counted toward the forest country's NDC. However, a country only relying on government-to-government, results-based finance may forgo additional sources of finance that are linked to transfer-based options.

Forest countries may prefer this approach if they need all emission reductions to achieve the goals of their NDCs, as long as they can attract sufficient international support on this basis to meet their NDCs.

Option 2: Countries transfer emission reductions under the modalities of Article 6.2 in return for transfer-based payment.

Countries could complement their financing strategies with government-to-government transactions under Article 6.2. This option may be the most likely avenue for forest countries to receive additional support for REDD+ through opportunities awarded by the Paris Agreement. Countries could chose to rely on an integrated approach that blends both results-based and transfer-based finance in support of the implementation of NDCs, most likely also together with some degree of domestic, GCF or ODA/grant finance for upfront funding needs. The transfer and sharing of the resulting emission reductions would require decisions about how those reductions should be allocated among the cooperating countries. Partnering countries would also have to consider whether additional measures should be taken to increase the environmental integrity of the emission reductions, and who pays for such measures.

Countries should also consider the following issues:

- Forest countries will need to consider retaining emission reductions so that those reductions comprise a sufficient contribution to their conditional[42] NDCs. Emission reductions required to meet an NDC will often also be supplied from other sectors, so countries will have to assess the contribution of REDD+ to the total mitigation effort.
- Engaging in transfer-based finance should lead to additional emission reductions beyond the forest country's NDC, in order that a portion may be shared without jeopardizing the NDC position of the forest country.
- Forest countries may seek to retain types of emission reductions that can be achieved with lower-cost mitigation efforts, in line with their national circumstances. They may still undertake more costly REDD+ and other reductions but may wish to seek higher levels of support from partner countries for those. This will require a solid understanding of the costs of mitigation options in forest countries.
- Similarly, partner countries may wish to assess their costs of acquiring emission reductions versus undertaking equivalent domestic mitigation efforts.

Article 6.2 would appear to give more flexibility than Article 6.4 to cater to this variety of approaches, especially as it is not yet clear whether REDD+ will be eligible for the Article 6.4

41 PBL, *Assessing Intended Nationally Determined Contributions to the Paris Climate Agreement: What Are the Projected Global and National Emission Levels for 2025–2030?* (The Hague: PBL Netherlands Environmental Assessment Agency, 2015).

42 Where countries have divided their NDC in an unconditional portion and a portion that is conditional on the receipt of international finance, it is assume that they unconditional portion of mitigation is achieved through domestic resources.

mechanism. Article 6.2 may involve conducting transfers on the basis of accounting values or could entail issuing carbon credits. A full range of contractual arrangements, as discussed in section 5.2, would be available.

Option 3: Countries use Article 6 to involve private and public entities in REDD+ implementation.

Forest countries and partner countries may wish to authorize private-sector and public entities to participate in transfer-based REDD+ transactions, either under Article 6.2 approaches or potentially under Article 6.4. Options for facilitating this engagement include the following:

- Countries may approve projects or programs that are nested in countries' national accounting. The subnational entities promoting such programs could receive carbon credits (or payments) that can only be used domestically. Alternatively, countries could consider whether such entities should be authorized to transfer emission reductions nationally or internationally. International transfers would need to be recorded and, where used for another NDC, would need to be deducted from the national accounts of the forest country.
- Countries may implement emissions trading or carbon tax systems that either place emission obligations on forest actors or allow carbon credits to be used to achieve domestic compliance obligations. Such carbon market instruments could be further linked internationally, in which case any transfers between countries would fall under Article 6. Countries can authorize regulated entities to purchase emission reductions from jurisdictional REDD+ programs or projects nested in national programs.

The involvement of private and public entities can mobilize additional finance and incentivize a broader range of implementers (e.g., NGOs, municipalities, private project developers) to engage in REDD+ activities. However, the engagement of the private sector also requires stable institutions and legal frameworks that provide actors with confidence in the long-term strategy of the forest country's government.

Option 4: Countries generate emission reductions under Article 6.4 for specific activities nested into REDD+.

Countries could develop a subset of activities of their REDD+ program under the rules of Article 6.4. Many REDD+ programs are integrated as part of comprehensive land-use strategies that include restoration and climate-smart agriculture programs. Where countries consider the achievement of REDD+ emission reductions to be risky, they could rely on transfer-based payments for a subset of activities, such as the restoration of native forests, where a higher degree of certainty over the emission reductions generated can be attained. While REDD+ may not qualify under Article 6.4, activities such as restoration (afforestation/ reforestation) may be eligible for the transfer of emission reductions. Such transactions would be nested in REDD+ programs, which would add environmental credibility to the transactions as the broader programs would capture leakage effects and allow the comprehensive management of permanence.

Option 5: Countries negotiate and implement joint NDCs.

Countries could opt to further deepen their collaboration by formulating joint NDCs, under Article 4.16, that cover REDD+. Joint NDCs could be formulated among countries whose forests belong to the same biome. Such joint NDCs could rely on a regional REDD+ RL, in which national RLs could be nested. Based on the joint NDC, the participating countries could negotiate as a group with partner countries to receive support for REDD+ implementation. Alternatively or additionally, forest countries could communicate joint NDCs with developed countries.

Where a forest country and a partner country engage in a joint NDC, they may agree on an RL and jointly be liable for its achievement. While the countries would still need to meet their targets individually, the partnering countries would agree to implement mitigation actions jointly that would be considered in the context of the same accounting framework.

While this concept may need more consideration and elaboration, it may be worth exploring partnerships under the Paris Agreement, as these partnerships can strengthen regional and international cooperation beyond the relationship of a seller and a buyer and establish joint responsibility for actions and the fulfillment of NDCs.

About Meridian

Meridian Institute is a not-for-profit organization whose mission is to help people solve problems, make informed decisions, and find solutions to some of society's most complex and controversial issues. Meridian's mission is accomplished through applying collaborative problem-solving approaches including facilitation, mediation, and other strategic consultation services. Meridian works at the local, national, and international levels and focuses on a wide range of issues related to forests and natural resources, climate change, environment, energy, agriculture, oceans, and global stability.

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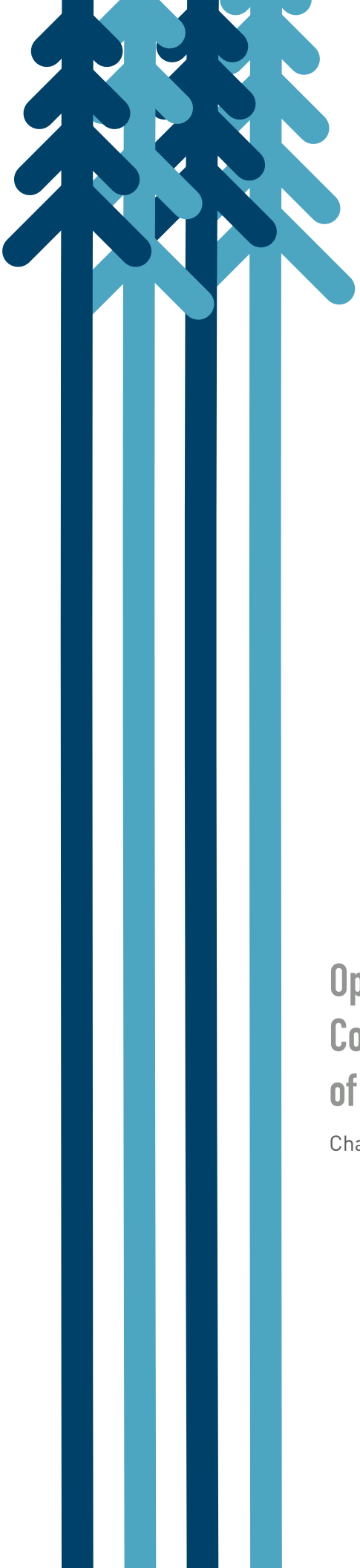

Options for Enhancing REDD+ Collaboration in the Context of Article 6 of the Paris Agreement

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