infobrief

CIFOR *infobriefs* provide concise, accurate, peer-reviewed information on current topics in forest research

CIFOR

No. 66, October 2013 | cifor.org

Verification vs. Finance?

Removing the negotiation roadblocks for results-based REDD+ activities

Michael Dutschke[1]

1. Introduction

Ten years ago, Brazilian NGOs organized a side-event "Tropical deforestation and the Kyoto Protocol – A new proposal" (Santilli, Moutinho et al. 2003) at the 9th Conference of the Parties in Milan. COP9 featured a national-level approach on emissions from deforestation. Two years later, the Coalition for Rainforest Nations officially tabled the proposal on Reducing Emissions from Deforestation (RED) at COP11 in Montreal (UNFCCC 2005), which initiated negotiations on what was to become REDD+[2]; a mechanism to mitigate climate change, foster rural development and increase climate resilience in tropical countries.

However, the debate around this to-be instrument has been going on for nearly a decade, and has yet to achieve concrete results. There seems to be a lack of common understanding of what REDD+ actually is.

The latest episode of this debate was the failed attempt at the Doha Conference of the Parties to draft a REDD+ Methodological Guidance for results-based activities, with the terms *verification* and *finance* at center stage.

Finance and verification are two sides of a typical chicken and egg problem:

- Under a strict compliance perspective, a developing country would commit to reduce its overall emissions from land use, land use change and the forestry sector. Based on the measurement and reporting of those emissions, the country would receive results-based compensation from international instruments under the Climate Convention.
- Currently, most developing countries lack the basic capacities for consistent monitoring and reporting. Therefore, investments into "REDD+ readiness" are being provided (often by the developing countries themselves), which are not yet based on results. Once the needed policy changes have been implemented and capacities created, there is yet no foresight as to whether long-term incentive finance will actually be available.

This makes developing countries doubt whether all human, institutional and technical capacities built up for the purpose will ultimately be worth the effort. For developed countries, the effectiveness of funds invested into REDD+ is a key criterion because they are using official development assistance (ODA) funds. Therefore, they have been interested in establishing rules for independent verification of results. During the Bonn climate talks following Doha, progress was made on a draft decision on the "Methodological Guidance for Activities Relating to REDD+" that appears to overcome the main barriers to agreement at Doha, at least on the surface. Against the background of the negotiation history of REDD+ methodologies, this Policy Brief analyzes the current draft decision and its chances for adoption.

2. Negotiation history

When REDD as a national-level climate change mitigation mechanism was first established in the 2007 Bali Conference, the relevant decision 2/CP.13 (UNFCCC 2008) came with an Annex that outlined the methodological framework for this future mechanism. Two years of international expert debate on the subject had preceded this decision (Angelsen and McNeill 2012), so that the main methodological issues were already listed in that document: national and sub-national demonstration activities, determination of reference (emission) levels, avoidance of sub-national emissions displacement, and the use of IPCC measurement and reporting methodologies. Paragraph 2 of this Annex states that "[e]stimates of reductions or increases of emissions should be results based, demonstrable, transparent and verifiable". Additionally, in paragraph 11, independent expert review was encouraged. Both paragraphs did not use strong language ("should", "encouraged"), but this changed with the Copenhagen decision on methodological guidance for REDD that requested "developing country Parties (...) to establish robust and transparent national forest monitoring systems and, if appropriate, sub-national systems that (...) are transparent and their results are available and suitable for review".

The following year in Cancun, the Parties agreed on a 3-phase approach (Decision 1/CP.16, paragraph 73) (UNFCCC 2010), with the first phase being the development of national strategies, the second phase being the implementation of policies and measures, and the third phase being the implementation of results-based activities. The level of country commitment increases from phases I to III. Phase III is described as "results-based actions that should be fully measured, reported and verified". Appendix I of the same document states that national forest monitoring systems should be "suitable for measuring, reporting and verifying". Yet, how this MRV system should look was never actually defined (Chitre and McCarty 2013).

According to the Cancun Agreements (UNFCCC 2010), developing countries will have to issue bi-annual update reports, which undergo international consultation and analysis (ICA) starting in 2014. The ICA procedure has so far been poorly

1 biocarbon consult, Germany, Michael@biocarbon.net

2 The term evolved over the years from "Reducing Emissions from Deforestation" (RED) to "Reducing Emissions from Deforestation and forest Degradation, and the role of conservation and the enhancement of forest carbon stocks in developing countries" (REDD+). Older references still relate to it without the *plus*.

defined, as developing country parties oppose the terms "review" and "verification" in the ICA context. Developed countries are still trying to move to more stringent rules for the ICA. Therefore, verification became the apple of discord in REDD+ during the 18th COP at Doha in December 2012. The Subsidiary Body for Scientific and Technological Advice (SBSTA) failed to agree on a draft decision on methodological guidance, putting the issue on the agenda of the Warsaw COP one year later. The debate around finance for REDD+ overlaid the issue. Developed countries refrained from committing to additional long-term funding, and developing countries refrained from agreeing to REDD+ verification procedures.

3. Finance for REDD+

In Bali, REDD+ was conceived as a separate mechanism outside the Kyoto Protocol and thus not accessible for existing internationally regulated carbon markets. It was hoped though that over time a system would be put in place that articulated REDD+ finance with the markets for carbon offsets (Dutschke, Wertz-Kanounnikoff et al. 2008). The failure to agree on a post-2012 successor to the Kyoto Protocol in Copenhagen has led to an all-time low in carbon prices. In this situation, it is inadvisable to float the compliance markets with even more sources for greenhouse gas (GHG) credits. The Doha Amendment (see Box 2) does not rule out REDD+ credits to be used against compliance, yet it is unclear when the Amendment will come into force and what the accounting rules will be until such time.

Domestic funding, at least in higher-income REDD+ countries, covers an increasing share of the readiness costs (Streck and Parker 2012). Under these circumstances, the willingness of developing countries to undergo external verification procedures, entailing even more costs, is likely to be limited. Currently, the most important source of international REDD+ funding is ODA. With the growing discontent among developing countries about the lack of private-sector funding and the slow disbursal of already committed public funds from Annex I (Streck and Parker 2012), the issues of ODA additionality and tied aid (Box 1) resurfaced, finally leading to a negotiation impasse in Doha.

4. International REDD+ verification

The term *verification* is not sufficiently defined under REDD+ because REDD+ itself is a bundle of policies and measures taken at different levels and by diverse actors. In a broad sense, verification can be defined as a control of investment effectiveness. In the REDD+ context, the following results could be verified:

Policies and measures:

- Progress in land titling and demarcation;
- Increased transparency on all levels of forest governance;
- Advances in the FLEGT[3] process;
- Benefits to indigenous and forest communities;
- Increased capacity for monitoring and reporting;
- Establishment of a reliable national reference level.

Direct forest-related activities:

- The rights of indigenous peoples are being respected;
- Stakeholder consultation is carried out correctly;
- Biodiversity hot spots are specifically being protected;
- The activity increases resilience to climate change;
- The private sector is engaging in REDD+ activities, so as to leverage public investment;
- Overall deforestation and degradation have effectively decreased.

For public donors all these criteria are relevant to prove aid effectiveness, and the same should apply to international instruments under the UNFCCC. The negotiation draft however mentions environmental, social and governance criteria in the context of safeguards, and not verification.

Only the last criterion actually relates to GHG verification. On the national level, carbon effectiveness can only be verified during phase III of results-based REDD+ activities. An IPCC workshop presentation (Srivastava 2008) left no doubt that "[a] robust system of accuracy assessment (...) is essential for REDD" and that

Box 1. ODA additionality and tied aid

ODA additionality means that funding for REDD+ should be "new and additional" to the existing OECD commitment to devote 0.7% of developed countries' GDP to development assistance, a target that only a handful of countries have achieved so far. To the exception of these countries, it cannot be ruled out that ODA finance is being re-labeled to become REDD+ funding.

There are also historical concerns in developing countries around **tied aid** or **aid conditionality,** whereby the donor controls how the assistance is being spent. Usually, tied aid is discussed in the context of conditioning assistance to the acquisition of goods and services in the donor country. Basing payments on verified results is at the lower end of the range of potential intrusion and can be justified by Annex I taxpayers' demand for an effective use of government budgets.

Counter-intuitively, ***results-based payments*** is an approach that goes against current practice of ODA agencies. These agencies usually spend all their funds by the end of a fiscal year, in order to secure the subsequent year's budget allocation.

Box 2. The Doha Amendment

The Doha Amendment is not yet in force, as only three parties have accepted it so far. Yet it includes a silver lining for REDD+ funding in its paragraph J, which states, "Any units generated from market-based mechanisms to be established under the Convention or its instruments may be used by Parties included in Annex I to assist them in achieving compliance with their quantified emission limitation and reduction commitments under Article 3" (UNFCCC 2012a). REDD+ as such a mechanism could qualify in this context. In case REDD+ was to become a market-based or market-linked mechanism, it could expect some private-sector leverage. Still, with the existing emissions limitations envisaged under the Doha Amendment, no major increase in demand can be expected.

---

3 Forest Law Enforcement, Governance and Trade

it should be set up in an international review process similar to the one applied in the National Inventory Review for Annex I countries. Srivastava encourages at least IPCC Tier 2 reporting at national level, because under Tier 1, the measurement uncertainties are so high that variations in GHG flows from forests cannot effectively be attributed. The measurement accuracy at sub-national level needs to be at least as high as at national level (Eggleston, Buendia et al. 2006). Currently no REDD+ country is in phase III, and some least developed countries may take a very long time before they enter this phase. Also rigid GHG inventory is only needed in cases where emission reductions are used for compliance with country emissions targets.

A recent CIFOR report (Dutschke 2013) reminded the parties that there was a lot of methodological work to be done before environmental integrity and effectiveness could be granted through verification. The report specifically mentioned forest definitions, uncertainties in measurement, reference (emission) levels, intra-national accounting (national vs. sub-national), reporting, and registries as areas needing development.

5. The Bonn draft methodological guidance

The subsequent meeting of the SBSTA in June 2013 achieved progress in technical details of REDD+ methodology. The "Methodological guidance for activities relating to REDD+" (UNFCCC 2013) with its two addenda covers national monitoring systems, measuring, reporting and verification (MRV), reference (emission) levels, safeguards, market and non-market-based approaches, and non-carbon benefits.

The draft handles the issue of finance by calling for "adequate and predictable support, including financial resources" for "non-market approaches" like joint mitigation and adaptation in forest management. There is also a paragraph on "non-carbon benefits", first mentioned in paragraph 40 of Doha decision 1/CP.18 (UNFCCC 2012b). The compromise proposal issues a call for submissions on this issue. This term, "non-carbon benefits", embraces a whole range of REDD+ co-benefits and benefit sharing between national and sub-national levels.

The compromise proposes a "technical annex" to the national GHG reporting for REDD+ for cases in which results-based finance is sought (paragraph 9). It proposes text on "elements for a technical annex", which has not been agreed by all parties, but which covers all relevant issues able to give credibility to REDD+ GHG measurement and reporting. This decouples the stringency of the review for the bi-annual update reports from the verification deemed necessary by the donors under REDD+, while still maintaining a common GHG reporting format and flexibility on the ICA procedures to be decided upon in the future. On few occasions the term "verification" is used in the negotiation draft.

As proposed in the CIFOR report, the whole ICA procedure itself is called "assessment"(Dutschke 2013). For REDD+, its scope includes the assessment of the reference (emission) level and – optionally – the verification of net emission reductions from results-based REDD+. The task will be carried out by a "technical team of experts" (TTE), composed of two or three members of the UNFCCC Roster of Inventory Experts. The TTE includes at least one member respectively from a developing and a developed country. The team may seek clarification from the government. Dissenting votes within the team shall be noted in the summary report.

Among the conflicting parts in the draft text is how policies and policy changes are addressed in the country reference level and whether the TTE has the right to assess these or to give advice to the government.

Paragraph 17 refers to "any further specific modalities for verification", which could be developed in the context of results-based finance for actions by "operating entities of the financial mechanism of the Convention"[4]. The word *specific* can indicate anything between mechanism-specific, activity-specific, country-specific and contract-specific verification rules, which may stir debate in the future.

What this single clause does, however, is decouple the debates around finance and verification. It seems more likely that viable solutions will be found for verification of a concrete finance mechanism than using a generic approach. This solution also allows using the coming years for experimentation on which verification options work best.

The current draft conclusions by the chairman still include a lot of text in brackets, paragraphs that not all delegates agree upon. Over the first week of the Warsaw climate meeting, much technical work remains to be done. Nevertheless, basic discrepancies have been resolved in an elegant way. GHG reporting remains within a common framework, with a Technical Annex that allows for specific REDD+ verification, if required. Assessment and likely verification will be carried out by the TTE as a subset of the UNFCCC Roster of Inventory Experts, thus building on already existing capacities.

6. Conclusions

Like many of the debates under the UNFCCC, the Doha debate around verification and finance was charged with symbolic value and little substance:

- An agreement on verification will relate to REDD+ funding under the Convention, e.g. the Green Climate Fund, which will likely be a minor share of all REDD+ finance. All other bilateral dealings, even those of multinational institutions like the World Bank, are subject to contractual law anyway, and will have their own MRV requirements.

Currently, no country is yet in phase III of results-based actions, where verification is needed (Dutschke 2013). Thus, experimenting with verification systems over the coming 3 – 5 years will provide greater clarity before final rules need to be written.

REDD+ funding under the Convention will not produce emission reduction units for the donor, because it is international. Therefore, a lack of stringency in verification does not harm atmospheric integrity.

No country can honestly commit to long-term GHG finance, because there is a predictable lack of market signals until 2021, when a more stringent follow-up international commitment period can start. By then, the composition of the committed

4 This is a reference to Durban decision 2/CP.17 paragraph 68.

parties under a follow-up treaty will likely include some economically emerging REDD+ countries.

- The current draft of the REDD+ modalities is finally addressing all relevant methodological issues around results-based actions, thereby creating the preconditions for consistent national monitoring and reporting systems.
- The draft calls for "adequate and predictable support" for non-market approaches, like integral and joint mitigation, and adaptation in forestry. These funds are public, and adequacy is thus limited by state budgets.
- In cases where a country is seeking or has received results-based REDD+ finance, the biennial update reports shall include a Technical Annex. The technical assessment of this annex seems to satisfy developing country negotiators requirements for effectiveness control.
    - This regulation could be a way to make REDD+ modalities independent from the rules to be decided for the ICA.
    - It may be assumed that the TTE will also do the country verification, if required.
- Last but not least: Verification may not be regulated generically. Specific rules can be given for all future finance mechanisms under the Convention.

The debate has shown how fragile negotiations are and suggests that the international community is losing sight of its target. Without integration into long-term policies and finance, REDD+ has been used to drive so many agendas that one ill-defined term like *verification* can delay progress for a whole year. In order to give direction to the process, REDD+ itself needs a clear definition, including where private-sector incentives shall come from, that has the potential to give the whole mechanism the needed leverage.

References

Angelsen A and Mcneill D. 2012. The evolution of REDD+. *In* Angelsen A, Brockhaus M, Sunderlin WD, and Verchot LV, eds. *Analysing REDD+. Challenges and choices*. Bogor, Indonesia: Center for International Forestry Research (CIFOR). 31-50.

Chitre SP and McCarty T. 2013. *Background, Analysis & Solutions For UNFCCC COP-19 & Beyond*. Priyamvada Sustainability Consulting LLC.

Dutschke M. 2013. *Key Issues in REDD+ Verification: Study Commissioned by CIFOR*. Bogor, Indonesia: Center for International Forestry Research (CIFOR).

Dutschke M, Wertz-Kanounnikoff S, et al. 2008. *Financing REDD: Linking Country Needs and Financing Sources*. Bogor, Indonesia: Center for International Forestry Research (CIFOR).

Eggleston HS, Buendia L, et al., eds. 2006. *Agriculture, Forestry and Other Land Use, 2006 IPCC Guidelines for National Greenhouse Gas Inventories, Prepared by the IPCC National Greenhouse Gas Inventories Programme*. Hayama, Kanagawa /JP.

Santilli M, Moutinho P, et al. 2003. *Tropical Deforestation and the Kyoto Protocol: A New Proposal*. Milan, Instituto de Pesquisa Ambiental da Amazônia – IPAM.

Srivastava N. 2008. *Expert Consultation on National Forest Monitoring and Assessment (NFMA): Meeting Evolving Needs*. Rome: Food and Agriculture Organization (FAO).

Streck C and Parker C. 2012. Financing REDD+. *In* Angelsen A, Brockhaus M, Sunderlin WD, and Verchot LV, eds. *Analysing REDD+. Challenges and choices*. Bogor, Indonesia: Center for International Forestry Research (CIFOR). 111-127.

UNFCCC 2005. *Reducing Emissions from Deforestation in Developing Countries: Approaches to Stimulate Action. Submissions from Parties.* Montreal: FCCC/CP/2005/Misc.1.

UNFCCC 2008. *Report of the Conference of the Parties on its Thirteenth Session, Held in Bali from 3 to 15 December 2007*. Bonn, Germany: FCCP/CP /2007/6/Add.1.

UNFCCC 2010. *The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention*. UNFCCC. FCCC/CP/2010/7/Add.1: 31.

UNFCCC 2012a. Doha Amendment to the Kyoto Protocol. *C.N.718.2012.TREATIES-XXVII.7.c.* New York: UNFCCC. 82.

UNFCCC 2012b. Report of the Conference of the Parties on its eighteenth session, held in Doha from 26 November to 8 December 2012. Addendum Part Two: Action taken by the Conference of the Parties at its eighteenth session. Decisions adopted by the Conference of the Parties. UN Framework Convention on Climate Change.

UNFCCC 2013. 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. Draft conclusions by the chair. SBSTA. Bonn / DE. FCCC/SBSTA/2013/L.12/Add.2.

RESEARCH PROGRAM ON Forests, Trees and Agroforestry

This research was carried out by CIFOR as part of the CGIAR Research Program on Forests, Trees and Agroforestry (CRP-FTA). This collaborative program aims to enhance the management and use of forests, agroforestry and tree genetic resources across the landscape from forests to farms. CIFOR leads CRP-FTA in partnership with Bioversity International, CIRAD, the International Center for Tropical Agriculture and the World Agroforestry Centre.

Norad

Australian Government AusAID

UKaid from the British people

Center for International Forestry Research (CIFOR)
CIFOR advances human well-being, environmental conservation and equity by conducting research to help shape policies and practices that affect forests in developing countries. CIFOR is a member of the CGIAR Consortium. Our headquarters are in Bogor, Indonesia, with offices in Asia, Africa and South America.