

# CONSOLIDATING NATIONAL REDD+ ACCOUNTING AND SUBNATIONAL ACTIVITIES IN GHANA



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# **CONSOLIDATING NATIONAL REDD+ ACCOUNTING AND SUBNATIONAL ACTIVITIES IN GHANA**

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Forest Trends' mission is to maintain, restore, and enhance forests and connected natural ecosystems, life-sustaining processes, by promoting incentives stemming from a broad range of ecosystem services and products. Specifically, Forest Trends seeks to catalyze the development of integrated carbon, water, and biodiversity incentives that deliver real conservation outcomes and benefits to local communities and other stewards of our natural resources.



The Katoomba Group seeks to address key challenges for developing markets for ecosystem services, from enabling legislation to establishment of new market institutions, to strategies of pricing and marketing, and performance monitoring. It seeks to achieve the goal through strategic partnerships for analysis, information sharing, investment, market services and policy advocacy. The Katoomba Group includes over 180 experts and practitioners from around the world representing a unique range of experience in business finance, policy, research and advocacy.



Climate Focus is an advisory company committed to the development of policies and projects that reduce greenhouse gas emissions. Our international and multidisciplinary team works closely with companies, governments and non-governmental organizations on reducing emissions in energy, households, industry, agriculture and forestry. Climate Focus is an independent expert in international and national climate law, policies, project design and finance.

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# 1. INTRODUCTION

Forest Trends engaged with Climate Focus to prepare an assessment of options for integrating subnational activities on Reducing Emissions from Deforestation and Forest Degradation (REDD+)<sup>1</sup> into the design of the national REDD+ architecture in Ghana in a way that is consistent with the emerging international REDD+ policy. This assessment forms part of a broader effort led by Forest Trends and the Nature Conservation Research Centre to strengthen national and project-level capacity for REDD+ in Ghana. The project has received generous support of the Gordon and Betty Moore Foundation.

This study provides an analysis of options for integrating (“nesting”) subnational into national REDD+ activities within Ghana’s emerging REDD+ policy. In line with Ghana’s proposal for developing a national REDD+ strategy as presented in its Readiness Plan Proposal (R-PP) in January 2010, we have looked at how the various REDD+ policies, programs and projects that Ghana is developing could work and interact with the emerging international REDD+ mechanism. In particular, this study discusses key requirements for making REDD+ carbon finance accessible at the subnational level and how subnational activities could then co-exist with the Ghanaian national REDD+ architecture currently being developed.

*We give special attention to the legal aspects surrounding the implementation of subnational REDD+ activities. The analysis of the current legal and regulatory structure for forestry and lands in Ghana prepared by Katoomba Ecosystem and Nature Conservation Research Centre titled REDD Opportunities Scoping Exercise (ROSE) is used as background and developed further as needed.*

The suggestions presented at the end of this report aim to facilitate early REDD+ action in Ghana and provide the necessary technical and legal elements for a more comprehensive and participatory discussion on how an integrated (subnational and national) REDD+ approach could work in Ghana. Our study aims to provide analytic input into the readiness process, with the knowledge that early action incentives will have to be flexible and adaptive to take into account lack of an adopted international REDD+ mechanism.

Note that while this study is essentially focused on carbon market approaches (i.e. crediting and trading of emission reductions/removals) to stimulate subnational action,<sup>2</sup> there is at the moment significant uncertainty as to the future of carbon market activities in general (and in particular for REDD+). Non-carbon market initiatives such as government-financed payment for environmental services (PES) schemes, non-market funding of subnational projects (similar to the model adopted by the Brazilian Amazon Fund), and other policy approaches may gain more traction in a future international REDD+ mechanism. These activities may take place in the context of national REDD+ accounting as alternative or complementary approaches to subnational crediting, which is the subject of this report.

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<sup>1</sup> The full reference to this topic in the United Nations Framework Convention on Climate Change texts includes enhancement of forest carbon stocks, sustainable forest management and conservation, in total referred to REDD plus or REDD+.

<sup>2</sup> For the purposes of this paper, the term subnational refers to implementation of REDD+ policies, programs and projects at the province, municipal or project level.

## **Report Structure**

This report is structured as follows: Section 2 briefly describes the potential subnational approaches to REDD+ and technical arrangements for operationalizing these approaches. Questions related to the establishment of reference levels, accounting, and measuring, reporting and verification (MRV)<sup>3</sup> requirements are discussed.

Section 3 looks at subnational REDD+ initiatives in Ghana and considers how they could benefit (now and in the future) from international REDD+ incentives under the different subnational approaches. Section 4 delves into specific aspects surrounding the implementation and development of subnational activities. Section 5 concludes with an overview of the findings related to applying the subnational approaches to Ghana in the near and medium term.

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<sup>3</sup> It should be noted that monitoring is also sometimes used instead of measuring when referring to MRV.

## 2. SUBNATIONAL APPROACHES TO REDD+

There is widespread agreement that a future REDD+ mechanism will eventually account for greenhouse gas (GHG) emission and removals on the national level. National implementation will involve policies and measures that apply nationally or focus on a particular region. Countries may also encourage private investment in project level activities. While subnational implementation is a reality in REDD+, there is no agreement yet on whether subnational activities will be recognized at the international level and whether those activities will be eligible for receiving credits for GHG benefits (reductions as well as removals) measured against a separate subnational reference level.

The 15<sup>th</sup> session of the Conference of Parties to the UNFCCC (COP) in Copenhagen was able to agree to basic REDD+ methodological guidance for the establishment of national and ('if appropriate') subnational monitoring systems as part of a national monitoring system for forest-related emissions, but fell short of providing detailed direction on (emissions) reference levels. Similarly, the draft text of the Ad-hoc Working Group on Long-term Cooperative Action on REDD that was not finalized or adopted by the COP (draft LCA text)<sup>4</sup> referred to both national and subnational reference levels, though brackets around this text indicate it was one of the points of contention that the technical negotiators could not resolve.

The REDD Options Assessment Report, a widely referenced study prepared by several international experts on REDD for the Government of Norway,<sup>5</sup> points to the existence of different subnational approaches to REDD+. These include (i) freestanding subnational activities (carried out in transition to a national accounting for REDD+); and (ii) subnational activities within a national accounting system. The latter category has a number of variations. One involves direct international crediting of climate benefits, while the other involves the national government receiving the credits and takes on the role of rewarding subnational activities within its borders.<sup>6</sup>

Concerns over environmental integrity (in particular concerns about leakage and permanence) and sovereign control of REDD+ activities made a pure subnational REDD+ approach (that is, one that is not undertaken as a transition to or a part of a future national accounting framework) a highly unlikely option for an international REDD+ mechanism. Consequently, exclusively subnational monitoring has also already been ruled out at the COP 15.<sup>7</sup> This report will only

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<sup>4</sup> FCCC/AWGLCA/2009/L.7/Add.6 15 December 2009, Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, Draft conclusions proposed by the Chair, Addendum, Draft decision -/CP.15, Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

<sup>5</sup> Angelsen A., Brown S., Loisel C., Peskett L., Streck C., and Zarin D. *Reducing Emissions from Deforestation and Forest Degradation (REDD): An Options Assessment Report* (2008), Meridian Institute, Washington D.C. available at [www.REDD-OAR.org](http://www.REDD-OAR.org).

<sup>6</sup> In this report the term 'subnational activities' is used to encompass discrete project activities as well as state or province-wide activities with activity-specific reference levels.

<sup>7</sup> See Decision 4/CP.15 Methodological guidance for activities relating to reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.



look at freestanding subnational activities to the extent that these may benefit from incentives put in place by the national government to promote early REDD+ action in the country.

Despite conceptual concerns about the level of GHG accounting at national and subnational levels, subnational approaches present a reality in the implementation of REDD+. In almost all countries, regional programs, individual projects and targeted interventions at the provincial level will complement national policies and governance reform. Subnational activities are also more likely to attract private sector finance than national programs. Governments may decide to adopt policies that create direct incentives for private sector investment. Such incentives may involve early crediting of emission reductions or PES programs. The direct crediting of emission reductions at the project level through international programs is still under discussion. If adopted it would provide additional incentives for foreign direct investment into REDD+.

Below we provide a brief overview of the options for subnational approaches developed within a national accounting system, with an emphasis on the relevant technical and institutional aspects that would need to be considered for the successful implementation of subnational activities under each approach. This serves as the basis for a more detailed analysis on how subnational REDD+ initiatives in Ghana could benefit from international REDD+ incentives (Section 3).

## **2.1 Potential Subnational Approaches to REDD+**

Once a national reference level is adopted, subnational accounting could complement the national monitoring and accounting system. Countries would monitor and account for REDD+ at the national scale and, at the same time, authorize and regulate implementation of REDD projects and programs by private or public actors at the subnational level. Countries could also adopt regional or provincial reference levels. REDD+ subnational activities would account for emission reductions against a project-specific or regional reference level. Emission reductions occurring at the subnational level could be rewarded either internationally or nationally. They would be subtracted from national GHG emissions.

Where the rewarding of subnational activities involves crediting of emission reductions to subnational actors, it is widely acknowledged that such activities would have to (i) be voluntary; (ii) be approved by the host country; and (iii) meet strict MRV standards to ensure environmental integrity.

Subnational activities would also need to comply with other requirements that may be set internationally (at the UNFCCC level or bilaterally) or nationally (according to host country realities and priorities). For instance, modalities and procedures established under the UNFCCC would likely define key features of the REDD+ mechanism such as MRV requirements, credit issuance, permanence rules, and fungibility of credits. In addition, international social and environmental safeguards<sup>8</sup> and principles would need to be further articulated and enforced in the domestic policies of host countries.

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<sup>8</sup> FCCC/AWGLCA/2009/L.7/Add.6 15 December 2009, Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, Draft conclusions proposed by the Chair, Addendum, Draft decision -/CP.15. See also discussion in Section 4.1 on Procedural Rights and Safeguards.

Below we present two potential scenarios for reconciling accounting and crediting of subnational activities with a national REDD+ system. Under the first scenario, crediting of subnational activities occurs at the international level and subnational actors have direct interaction with the bodies and institutions responsible for the international REDD+ mechanism. The second scenario depicts an option in which the government of the host country is the primary entity being credited for all actions (national and subnational) taking place within the country. In this latter scenario, subnational actors are rewarded with incentives defined and regulated by their government at the national level. It is important to note that in both potential subnational approaches discussed in this paper, issuance of credits would be ex-post (i.e., would take place after environmental benefits have accrued and been measured and verified).<sup>9</sup>

### **International Crediting of Subnational Activities**

Under a scenario of international crediting of subnational activities, emission reductions would be verified following an international validation and review procedure. Setting of baselines (in the case of projects) or reference levels (in the case of provinces) would be assessed and approved against internationally set criteria.

Subnational credits could be issued by an international body directly to accounts of subnational actors. The number of subnational credits issued would be deducted from the REDD+ units awarded at the national level (i.e., those corresponding to national level reductions due to policies and measures implemented at the national scale by the government). Domestic leakage would need to be identified, monitored, and subtracted from subnational emission reductions to ensure subnational credits are not being claimed at the expense of the national accounting system or other subnational activities.

### **National Crediting of Subnational Activities**

Under a scenario of national rewarding of subnational activities, REDD+ credits would be issued by an international body to governments rather than to subnational activities. Subsequently, the government would, pursuant to established regulations and procedures, reward actors engaged in subnational activities for emission reductions achieved below a project-specific baseline. The reward could include the right to receive REDD+ credits if the subnational activity is successful. The receipt of the REDD+ credits by these actors would need to be reconciled with the aggregate REDD+ efforts of the country at the national level. Ultimately, the government would be responsible for deciding how to address distribution of incentives to subnational actors if there are insufficient national REDD+ credits.

Basic principles of project design would be decided on the international level, leaving it to the host country to set and approve reference levels and baselines and review individual project applications. Buffer accounts and guarantees can also be used to reduce risk to subnational investment.

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<sup>9</sup> Another possibility could be an *ex ante* issuance of credits to the national government. Such scheme would, however, entail greater host country management capacity (e.g., establishment and maintenance of electronic registries) and liabilities (firm compliance after the end of a given commitment period). Therefore, this possibility is not discussed in this report.

## **Early Action Subnational Activities**

Freestanding subnational activities could either be implemented (i) before an international REDD+ mechanism has been adopted; or (ii) before a country has adopted a national reference level. Countries could authorize discrete projects, state and/or province-wide activities with activity-specific or provincial reference levels. Emission reductions would be accounted for at the province or activity level, with any domestic leakage captured as part of the subnational MRV by directly discounting leakage from emissions reductions associated with the activity.

If subnational activities are linked with an international REDD+ mechanism, credits could be issued by an international body to successful subnational activities and would equal the quantity of verified emission reductions/removals of the activity (minus emissions associated with leakage). Internationally approved modalities and procedures would define how subnational reference levels are set and decided on, MRV requirements, and treatment of domestic leakage.

Approved subnational activities could eventually be linked to national accounting systems. They would mark as a step towards a national reference level and national crediting of REDD+ results.

## **2.2 Technical Arrangements for Subnational Approaches**

Both subnational approaches described above require similar tasks being carried out including MRV, accounting and management of liabilities.

### **Standards and Guidelines for Measuring, Reporting, and Verification**

Modalities and procedures approved internationally (under the COP or body within a foreign cap-and-trade program) would set out guidelines on how national reference scenarios are set and decided on and national MRV requirements.

In the case of international crediting, subnational reference scenarios, subnational MRV requirements, treatment of domestic leakage, and rules on issuance of credits to avoid double counting, would likely be assessed and approved following international modalities and procedures. However, where there is an option for national crediting of subnational activities, more flexibility should be given to the national government to dictate these requirements within general international guidance.

The international modalities and procedures would also need to detail the technical administrative aspects of the system such as the skills required for third parties to conduct the relevant assessment/approval, how credits are issued (e.g. X days after receipt of a request for issuance), traded (who is entitled to request transfer of credits between accounts, how this works etc), and used (cancellation, banking etc). In this respect, the MRV standards and methods developed under the Clean Development Mechanism (CDM) provide guidance. There is also already growing experience with MRV for REDD projects in the voluntary market designed to attain estimates of carbon credits with high levels of accuracy and precision.<sup>10</sup>

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<sup>10</sup> MRV for subnational activities could for instance be carried out following existing methodology and standards and assisted by accredited international or national auditors (who could perform validation of subnational activities and verification of results).

## Setting of Reference Levels

Subnational activities would be required to demonstrate that emissions reductions and removals are real, measurable and additional and apply the agreed methods to monitor carbon stocks, emissions and leakage. Subnational activities would either develop their own reference levels or adopt specific (regional) reference levels established by the host country.

If developing their own reference levels, subnational activities could follow procedures similar to the ones created under the CDM or the voluntary market, using baseline and monitoring methodologies previously approved by an international body or (in the case of *national crediting*) a national body.<sup>11</sup> Emissions from leakage would have to be deducted from the emissions reductions verified for the subnational activity. Assessment and final approval of subnational activities would be (i) entrusted to international (UNFCCC or another) accredited auditors and bodies or (ii) performed by nationally accredited entities and bodies. Domestic leakage would need to be identified, monitored, and subtracted from subnational emission reductions to ensure subnational credits are not being claimed at the expense of the national accounting system or other subnational activities.

The country could also opt to develop and assign a regional emission reference level to incentivize subnational activities within the country. This would arguably be the most appropriate manner to ensure the overall integrity of national REDD+ implementation. A set of integrated activity, regional and national reference levels would ensure overall environmental integrity while taking into account regional and national circumstances.<sup>12</sup>

## 2.3 Institutional Requirements

The main tasks and functions that need to be carried out under the different subnational approaches discussed above include:

- Setting reference levels (top down) or approving reference levels (bottom up)
- Approving activities
- Registering activities
- Monitoring and reporting
- Verification of the GHG benefits generated by the activity
- Credit issuance (international) or distribution (national)

The entities responsible for these tasks will be determined by a mixture of UNFCCC negotiations and decisions by national governments. Due to the role of the parties to the UNFCCC in determining the final architecture of any REDD+ mechanism, the institutions that

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<sup>11</sup> While the CDM modalities and procedures could serve as model, the necessary adjustments for REDD+ activities would be required. Any international REDD+ approval cycle should learn from the CDM's positive and negative features and avoid overly complicated approval requirements. For example, the temporary crediting approach adopted for CDM afforestation and reforestation projects has not been successful and alternatives should be sought for REDD.

<sup>12</sup> However, this may lead to additional technical demands if spatially regional reference scenarios are produced at higher resolution.

may be responsible for these functions is currently unclear. However, based on existing precedent within the Kyoto Protocol mechanisms, some likely conclusions can be suggested. Table 1 below sets out how the tasks could be completed by international and national actors under the three different subnational approaches described in 2.1 above.

**Table 1: Overview of Possible Institutional Requirements under a Future UNFCCC REDD+ Mechanism**

<b><i>Subnational Approach:</i></b>	<b><i>Freestanding Subnational Activity</i></b>	<b><i>Subnational Activity with National Accounting: International Crediting</i></b>	<b><i>Subnational Activity with National Accounting: National Crediting</i></b>
	<b>Institution Responsible</b>		
<b>Propose subnational reference level</b>	Developer/Manager of subnational activity and/or national authorities <sup>13</sup>	Developer/manager of subnational activity and/or national authorities	Developer/manager of subnational activity and/or national authorities
<b>Approval of subnational reference level</b>	Internationally approved third party. DNA of host country could also consider giving additional approval.	Internationally approved third party. DNA of host country could also consider giving additional approval.	Internationally approved third party or third party approved by and accountable to a national REDD+ authority
<b>Authorization of subnational activity</b>	National authority	National authority	National authority
<b>Measurement and reporting</b>	Developer/Manager of subnational activity	Developer/manager of subnational activity	Developer/manager of subnational activity
<b>Verification of subnational activity</b>	Internationally approved third party	Internationally approved third party or third party approved by and accountable to the national government	Internationally approved third party or third party approved by and accountable to a national REDD+ authority.
<b>Registration of the activity</b>	UNFCCC agency	UNFCCC agency	UNFCCC agency or national registration.
<b>Credit issuance</b>	UNFCCC agency	UNFCCC agency	UNFCCC agency
<b>Receipt and distribution of credits</b> (see Section 4 discussion on ownership and rights)	Developer/Manager of subnational activity	National government for national reductions plus Developer/manager of subnational activity for subnational reductions	National government who then re-distributes to developer/manager of subnational activity

<sup>13</sup> E.g., Ghanaian public authorities.

### **3. SUBNATIONAL APPROACHES FOR GHANA**

A national REDD+ strategy for Ghana will need to be flexible to cater for the considerable uncertainty on how an international REDD+ mechanism will eventually operate. Despite these uncertainties, there is convergence around the notion that any national (and subnational) REDD+ efforts will be voluntarily implemented, based on transparent and robust MRV procedures, and likely supported by both public and private sources of funding. There is also agreement that domestic implementation of REDD+ will involve national as well as subnational activities.

Below we provide a brief overview of the current REDD+ efforts and institutions in Ghana and discuss in more detail how subnational approaches could benefit (now and in the future) from international REDD+ incentives.

#### **3.1 REDD+ Activities and Institutions**

##### **REDD+ Activities**

Ghana is currently developing its national REDD+ strategy with support from public sources of finance and multilateral initiatives. The country's recently approved R-PP highlights a range of focus areas and activities to be promoted within the Ghanaian national REDD+ strategy. These include, among others, to: (i) improve timber supply and timber stock enhancement on reserve and off-reserve areas; (ii) improve the emissions profile of activities related to charcoal and fuelwood production; (iii) encourage carbon-friendly cocoa sector production; and (iv) reduce emissions via improved fire management.

The REDD+ focus areas of the R-PP will result in both national and subnational level interventions as follows:

- The timber supply improvements focus on improving the sector's efficiency. This will occur via reforms to tree tenure, potentially regulating export tariffs and controls, or defining investment criteria that lead to increased carbon stock. In addition to these national level interventions, site level actions include improved forest management, incentives to increase the development of plantations, and/or rewarding community forest management activities that increase timber supply.
- Actions to improve the emissions profile of charcoal and fuelwood activities will also have both national and subnational interventions. Rewards to smallholders from reduced emissions through improved wood production practices (community woodlots or other SFM activities) could be implemented as discrete subnational activities, while subsidies or public programs to increase use of improved wood cookstoves or even encourage more widespread use of solar energy would result in either national or subnational level rewards depending on the design.

- Cocoa sector production options can result in a net increase in carbon stocks via greater use of agroforestry and shade tolerant cocoa species. These activities can be encouraged as subnational activities or as national policies. The government can require by law that land owners' management plans include a minimum percent of shade grown cocoa in the total planned cocoa production. This would act as a national policy creditable under a national reference scenario and national MRV, though it could also be implemented as standalone subnational activities before such a national system is established. Independent subnational activities can take the form of voluntary decisions by cocoa producers to change to agroforestry cocoa in order to generate carbon credits plus additional income from agroforestry tree crops (with accompanying biodiversity benefits). Efforts to require certification of cocoa farmers with improved practices could be sponsored by the government or civil society. The design of the schemes can lead to crediting at either national or subnational levels under different scenarios.
- A nationally established fire control fund could reward individuals who take actions to reduce emissions from activities via improved fire management. The fund itself could be established a number of different ways. For example it could be established as a public mechanism that subsidizes or pays participants to control local forest fires. The fund could then be financed through the sale of nationally generated emission reduction credits. It is also possible to establish a project development and aggregation fund that supports individual fire reduction projects outside a national system. The fund could sell the project level credits generated from the aggregated projects and distribute the proceeds to the projects and/or invest in new projects.

Ghana's R-PP sets out a national work plan for REDD+ implementation between 2010-2013, through which task forces are established to design, test and propose emissions reducing policies and actions such as those described above. The policy design work carried out should also allocate responsibilities between national, provincial and non-state actors for various steps related to implementation, authorization, monitoring and oversight. The next subsection describes the institutions that may take the roles and responsibilities in the subnational approaches to crediting described in section 2.

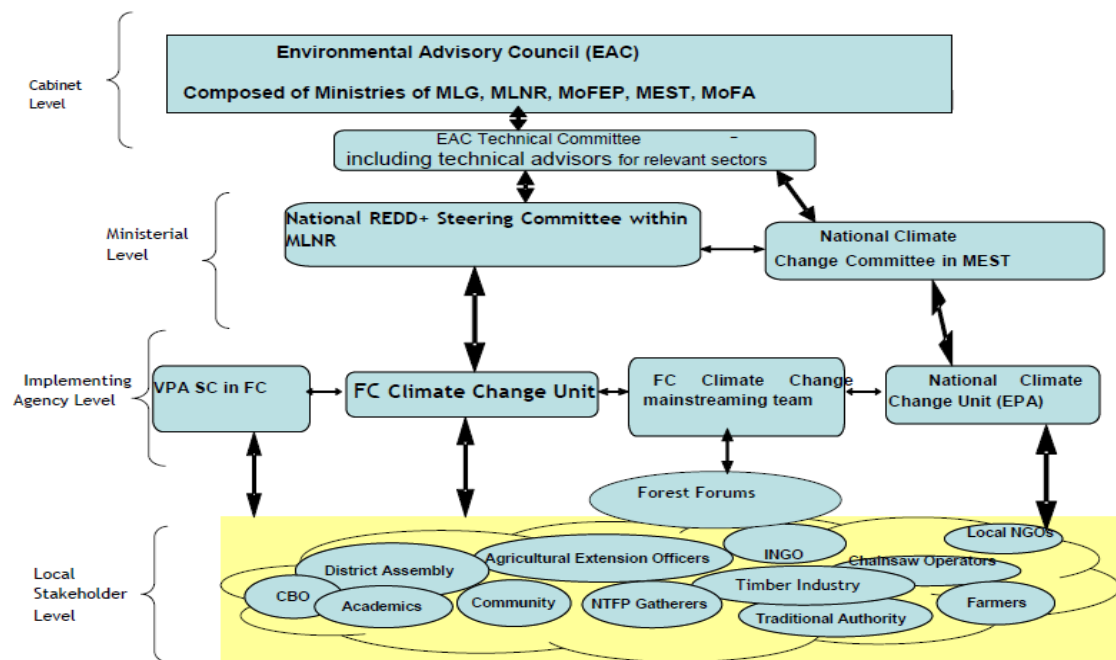
In addition to the R-PP, voluntary REDD+ activities are being designed in tandem to the Government's readiness process. These include efforts associated with Community Resource Management Areas (CREMAs) and other activities being developed by private and civil society actors (e.g. sustainable agroforestry in cocoa production, reforestation efforts, sustainable charcoal and other REDD+ activities in the timber and food sectors).

### **REDD+ Institutions**

Ghana has established a number of institutions with responsibilities for REDD+ in the country. These are working concurrently with various forest sector institutional and governance reform efforts taking place in Ghana such as the Natural Resources and Environmental Governance Development Policy Operation (NREG) and the Voluntary Partnership Agreement (VPA) concluded under the EU Forest Law, Law, Governance and Trade (FLEGT) process. NREG is a

program to coordinate donor contributions and other finances related to the environment. It is currently being implemented and will be involved in coordinating REDD funding. The NREG decision making body is the Environment Advisory Council. This high level council was established in late April 2010 and is chaired by the Vice President. It links various Ministries and is a cross sectoral national decision making body on climate change. The National REDD+ Steering Committee (NRSC) within the Forestry Commission was established to advise the Ministry of Land and Natural Resources (MLNR) on REDD+ issues and lead REDD+ management. The Climate Change Unit of the Forestry Commission serving as the Secretariat of the NRSC. The NRSC is composed of ministries, private sector, civil society groups, local communities, landowners and other relevant stakeholders and serve as forum to share knowledge and experience on REDD+ initiatives in order to inform policy formulation and develop projects and programs. NRSC proposals will be submitted for approval to the Environment Advisory Council.

**Figure 1: REDD+ Management Arrangements**<sup>14</sup>



In addition, under the R-PP, REDD+ Working Groups and Expert Groups are set to be established with the charge of leading the design and testing of REDD+ activities in the next three years. The NRSC will approve the TORs and composition of these Working Groups at its July 13, 2010 meeting. These Working Groups focus on specific optional REDD+ actions and strategies and after testing and designing pilot REDD+ activities, they will present a proposal to the NRSC for including specific REDD+ options in the official national REDD+ strategy. While the Ghanaian DNA (the Environmental Protection Agency) has had little to no experience to date with forest related carbon activities, it may be well positioned to take part in the national institutional infra-structure associated with REDD+ in Ghana.

<sup>14</sup> Ghana's January 2010 REDD Readiness Proposal, Forestry Commission (Page 17).



Finally, District authorities, and the District Assembly may be relevant in the (subnational) implementation of REDD+. Local Forest Fora which bring together multiple stakeholders, including organizations from civil society or academia are important candidates to fulfill certain responsibilities. Similarly, the role that the National House of Chiefs would have, given their authority over Stool lands and in the revenue distribution and land allocation rights is also a critical consideration.

It is also important to note that Ghana has expressed openness to supporting subnational activities in its R-PP. The inclusion of piloting and testing REDD+ strategies via the participation of civil society and private sector partners is one way Ghana seeks to better understand the role to be played by subnational actions. Through policy and governance analysis of candidate strategies, the R-PP will analyze mechanisms to create incentives for private actors to participate in REDD+ projects and programs. A quick search identified eight potential pilot projects listed in Annex I.

Based on the definition and implementation of REDD+ activities ongoing in Ghana, the specific institutions in Ghana who can take on the roles required for subnational activity oversight and management will be defined. Any additional capacities that may be required will also need to be addressed. This is discussed again in the Concluding section of this paper.

### **Application to Subnational Scenarios**

This section looks at one REDD+ activity – cocoa production – and how this would work in practice in Ghana under the two most likely subnational approaches discussed in Section 2: i) freestanding subnational activities and ii) subnational activities within national accounting and international crediting. In the cocoa example smallholders and larger operators change production practices to increase agroforestry and shade tolerant cocoa species, which can result in the net increase of carbon.

#### *Freestanding subnational activities approach*

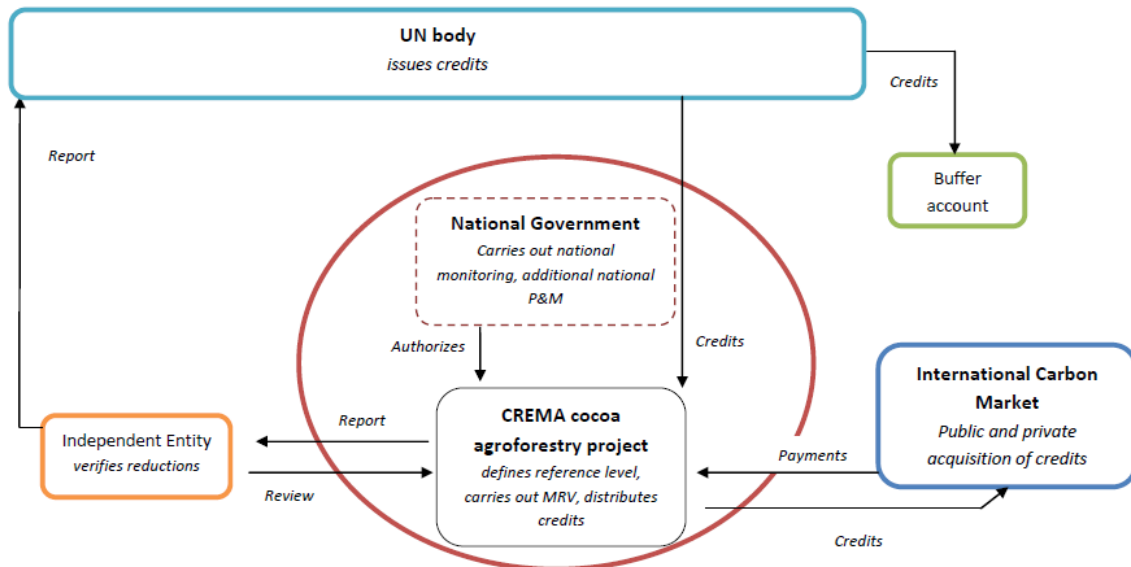
This approach loosely follows the CDM and includes the following steps, as shown in Figure 2 below:

- **Project Developers and Managers**, such as a CREMA undertake feasibility analysis and design the project. Project design and implementation will include developing project documents, the project-specific reference level, MRV, legal arrangements, project finance and project management. The developers are also responsible for obtaining approval from Ghanaian authorities and selling any credits the project generates.
- **The National Ghanaian Authority** (e.g. the National REDD+ Steering Committee) evaluates and approves or rejects the project documents based on published national criteria.
- The Developer applies to an **internationally approved third party** to review the project against international criteria.

- After successful third party review and national approval, the subnational activity is submitted for registration under the designated UNFCCC agency and once registered is eligible to start generating credits. The UNFCCC agency also issues credits directly to the registered activity, setting a portion aside into the buffer account based on international rules.

Note that the government can also carry out activities under this approach.

**Figure 2: Freestanding Subnational Approach**



*Subnational activities approach with national accounting and international crediting*

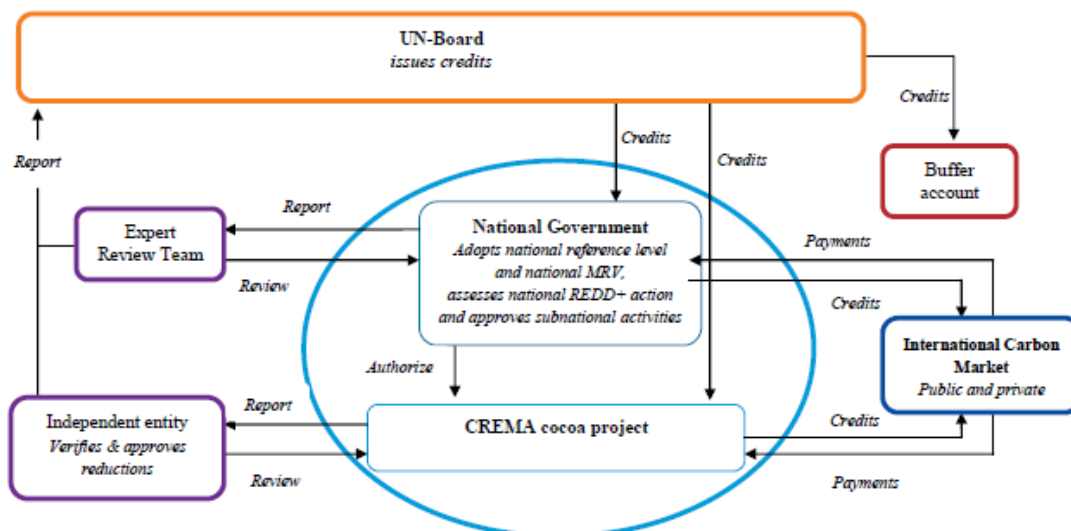
Under this approach the major roles and actions include:

- As in the freestanding approach, the **Project Developer and Manager** would undertake feasibility analysis and design the project. Project design and implementation will include developing project documents, legal arrangements, project finance and project management. However, the project's reference scenario would be based on the existing national reference scenario, though additional work may still be required depending on how detailed the national reference scenario is and how leakage and other technical issues are dealt with. MRV would also need to be based on and linked to national MRV. The developers are also responsible for obtaining approval from Ghanaian authorities and selling any credits the project generates.
- The **National Ghanaian Authority** (e.g. the National REDD+ Steering Committee) evaluates and approves or rejects the project documents based on published national criteria. In this subnational approach the National government will have also adopted a national reference level and national MRV approach and it assesses the subnational activity within this framework.

- The Developer applies to an **internationally approved third party** to review the project against international criteria.
- After successful third party review and national approval, the subnational activity is submitted for registration under the designated **UNFCCC agency** and once registered is eligible to start generating credits. The UNFCCC agency also issues credits directly to the registered activity, setting a portion aside into the buffer account based on international rules. These credits do not pass through the governments accounts first.

Note that national-level activities can also happen under this approach. The government will receive credits for its national reductions less any credits already allocated to subnational activities successfully implemented within the country, less the credits transferred to a buffer account. Rules around the allocation between the government, registered subnational activities and the buffer account are set in the international rules.

**Figure 3: Subnational Approach with International Crediting**



### 3.2 Promoting Early Action at the Subnational Level

If the Government wishes to actively promote early REDD+ subnational level initiatives that are prepared and implemented by non-state actors, it will have to implement a clear incentive structure for effectively attracting and engaging private actors and civil society groups. This includes, maybe most importantly, giving those that are ready to invest into REDD+ action assurance that emission reductions will be rewarded with carbon credits as soon as those are available. Until then the government may support activities approved under voluntary carbon market standards and/or secure recognition of early action efforts. In addition, governments should clearly define rights associated with climate benefits, establish transparent and streamlined approval procedures.<sup>15</sup>

<sup>15</sup> Note that a complete discussion of all regulatory aspects to be dealt by Ghana to attract further domestic and international private sector support is beyond the scope of this study. Other broader regulatory issues such as overall transparency of the

## Recognition of Early Action Efforts

In order to stimulate non-state actors' involvement in REDD+ activities, the Government of Ghana could endorse recognition of eligible and duly authorized early efforts. Endorsement of early action efforts could come in various forms, including:

- approval of projects with a clear statement that the relevant project will be recognized once an international REDD+ mechanism is in place (provided the project is in line with international requirements);
- accounting for approved projects and subnational activities when setting the reference levels (and creating a reserve for early action credits);
- support private sector activities through support of feasibility studies or project documentation;
- establishment of national and regional reference levels and publication of guidelines for setting project guidelines or acceptance of methodologies of credible voluntary market standards;
- authorization to generate voluntary emission reductions and removals before a national reference level is in place; and
- approval of subnational reference levels developed and recognition of their validity until the date of review or re-validation of such subnational reference level.

Note that if national laws are to recognize REDD+ emission reductions before the adoption of a national REDD+ reference level, they would have to apply conservative requirements to mitigate risks of recognizing credits that could turn out to not be recognized under the national reference level. The Voluntary Carbon Standard (VCS) and the Climate Community and Biodiversity Alliance (CCBA) have the greatest chance of meeting the criteria of future regulations. Both standards recognize REDD+ and are generally accepted by business and civil society. The standards are complementary to each other with the VCS accounting for emission reductions and the CCBA for environmental and social co-benefits. They are also on track to secure the highest share of the voluntary market in coming years.

Under the *freestanding* approach and the *national accounting with international issuance* approach the Government could also condition the grandfathering of early subnational activities to the successful recognition of these activities at the international level (i.e., under the UNFCCC or under the system established by a foreign country under a bilateral arrangement).

## Assignment of Carbon Rights

Where private actors are allowed to directly participate in the trading of international REDD+ credits, the proper allocation of these rights becomes a necessary step. Where subnational actors are authorized to participate in carbon markets, rights over the carbon stored in forests and

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administration, measures to deter corruption, reliability of institutions and enforcement capability would also weigh heavily on subnational actors and foreign companies' decision to effectively engage in REDD+ in Ghana.

biomass need to be clarified. This is less relevant for policies that address drivers of deforestation indirectly, non-market based interventions and governance reform.

Very few countries have laws that set out who is entitled to the climatic benefits stemming from carbon stored in forests and biomass (the exception being Australia and New Zealand). In the absence of specific laws it is often acknowledged that the owner of the forest will also be entitled to benefits and products (including climatic) generated by such forest. This can be complicated if use, access, or other traditional rights are held by someone other than the legal owner.

In accordance with the ROSE analysis<sup>16</sup>, natural and forest resources in Ghana are predominantly administered by the State. In particular, all rights to trees with economic value are vested in the President in trust for the benefit of traditional authorities. The Forest Commission is charged with the management of forests and decides almost exclusively on the granting of timber concessions and felling rights for economic purposes. The power of the State to administer natural resources extends to both on and off-reserve areas. In private lands, however, land owners and users have the right to fell naturally regenerated trees for crop cultivation.

Under a scenario where the State effectively administers all natural resources on behalf of the people of the Ghana, the *prima facie* (first instance) administrator of the carbon rights is therefore the Government. The Government however can transfer the rights to natural resources to individuals, companies or other groups of society via concession or administrative authorization. Hence, a proponent willing to implement a REDD+ subnational activity would need to obtain such authorization from the Government to exploit the rights to carbon contained in the trees and biomass within the subnational activity boundary. If the activity proponent was not the actual land owner they would also have to make an agreement with land owners and other right holders to restrict their right to fell trees for crop cultivation and other non-commercial purposes.

It is important to note that, from an international law perspective, the legal ownership and right to exploit the economic benefits of carbon stored in trees differs from the right to REDD+ units issued by an international constituted body. As only states are the direct subject of rights and obligations under a treaty-based regime, any REDD+ unit created and issued under an international climate agreement belongs initially to the concerned state (regardless of whether such REDD+ unit is issued to the government or directly to a subnational entity of that government). The government can, however, authorize the participation of subnational entities in REDD+ activities and explicitly or tacitly transfer the right to REDD+ units to such subnational entities.<sup>17</sup>

Note that the above analysis on allocation of carbon rights reflects only one possible legal interpretation of the Ghanaian forest and natural resource laws currently in effect. Pursuant to the ROSE study however it seems clear that broader questions associated with rights to land and natural resources (e.g. overlapping customary and statutory laws, poor benefit sharing arrangements and conflicting land use policies) will need to be tackled in the near term if

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<sup>16</sup> Katoomba Ecosystem and Nature Conservation Research Centre *REDD Opportunities Scoping Exercise (ROSE)*. March 2010.

<sup>17</sup> Under the CDM, the act of transferring rights to carbon units is performed by the DNAs in their authorization and approval or projects and project participants.

subnational actors are expected to be effectively engaged in REDD+ activities. Any effective land and tree tenure reform would have to clearly set out the rights and obligations related to the use of natural resources, including “appropriately and equitably allocating carbon rights based on actual threats and decision-making” among government, traditional authorities, farmers, settlers and companies.

### **Right to Participate in Subnational Activities**

To reduce the likelihood of competing claims and disputes, all stakeholders with a direct interest in a given subnational REDD+ activity eligible for crediting should be allowed some level of participation. Subnational actors may be involved as formal project proponents (those who are entitled to communicate with national and international authorities on issues related to the subnational activity and directly receive credits upon issuance) or as local stakeholders with an interest in its implementation and outcome.

Generally (although not necessarily) subnational activity proponents will be those entities who hold, either initially or through governmental concession/authorization, the rights to exploit the benefits of the carbon stored in the trees and biomass. For instance, resident communities developing sustainable agroforestry initiatives under a CREMA would be potential proponents of REDD+ subnational activities. Similarly, timber companies proposing to implement reduced impact logging activities and who hold a timber concession would be another potential candidate.

Given the complexity of the rules related to land and forest use in Ghana and the many different interests involved, clear rules would have to be established in relation to the right to participate (both as REDD+ activity proponent and as a local stakeholder) in subnational REDD+ initiatives. Participation rules would have to cater for the different land and forest regimes. These include on and off-reserve forests, stool and non-stool lands, public and private land, and to unique regimes like CREMAs. The Ghanaian DNA, or another competent body, could be charged with the task of verifying that all relevant actors have been considered before a subnational REDD+ activity is authorized and that minimum benefit sharing principles have been respected. Finally, participation of foreign investors would also have to abide by rules related to restrictions on foreign direct investment and land ownership, if any.

Clearly defining the entities entitled to participate in subnational REDD+ carbon activities and their rights and responsibilities is a crucial step to stimulate early action efforts. In addition, non-state actors will undoubtedly seek basic guarantees that their legitimate expectations will be respected by the relevant regulatory entities. Section 4.1 discusses some mechanisms that can assist in the safeguard of procedural rights of both stakeholders and project proponents under the different subnational approaches.

### **Subnational Project Approval**

Similar to the CDM, under the *freestanding subnational approach* and the *national accounting with international issuance* an appointed Ghanaian governmental authority would have to ensure that the activity is in line with the Country’s sustainable development objectives.

A REDD+ international agreement (or a bilateral agreement with an investor country) may provide some guidance on any additional areas reviewed by the host country and subject to approval. This may include for instance providing a formal statement that the Country has duly considered and addressed all the different interests involved in the development of the REDD+ subnational activity and that some basic participatory and benefit-sharing principles have been respected.<sup>18</sup> Requirements regarding environmental and social safeguards may also apply. The Government of Ghana may also formulate additional criteria.

In Ghana the role of approving subnational activities could be exercised by the DNA (housed in the Environmental Protection Agency) where infrastructure already exists for the national assessment of carbon abatement projects. This may, however, require some strengthening of human and institutional capacity to deal with the particularities of REDD+ activities. Staff would have to be equipped to deal with the specific social and environmental concerns posed by REDD+. In addition, technical expertise may also be required where the DNA is asked to endorse subnational reference levels. Finally, the DNA would have to put in place the necessary communication channels with subnational activity proponents and stakeholders and provide an administrative mechanism to hear complaints and solve disputes.

Furthermore, the DNA or any other competent body appointed to approve subnational activities should establish clear rules for activity approval, including all required documentation and timelines. Decision-making should be made public and consistent so that similar projects receive similar treatment. Communication on rules of the scheme and any changes to them should be made available in an internationally-accessible format. Additional elements of good governance and due process are discussed in section 4.1.

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<sup>18</sup> To some extent these activities could also be performed by an independent auditor charged with checking that key sustainable development criteria have been satisfied and all necessary contractual arrangements are in place.

## **4. OTHER RELEVANT ASPECTS FOR THE DEVELOPMENT OF SUBNATIONAL ACTIVITIES**

### **4.1 Procedural Rights and Safeguards**

While REDD+ has the potential to effectively achieve a substantial amount of emission reductions in developing countries, a REDD+ mechanism must be designed and implemented with a view to avoid potential negative social impacts for local actors. A set of key procedural rights and safeguards at the international, national and subnational level will therefore be required to ensure meaningful participation and agreement of all those directly involved in REDD+ activities.

International environmental law already contains a body of principles underpinning procedural rights for non-state actors, with particular emphasis given to indigenous peoples and traditional communities. These include the right to have access to information and to effectively participate in the achievement of sustainable development, as embodied in the Rio Declaration and later reflected in other international instruments.<sup>19</sup> A summary of some relevant treaties ratified by Ghana that already contain procedural rights is set out in table #2 below. REDD+ implementation in Ghana should be consistent with these existing obligations. It should be noted that other conventions that Ghana has ratified may also be relevant to other aspects of REDD+ implementation, such as those related to biodiversity and corruption.<sup>20</sup> Other conventions that could be applicable, such as the Convention on Access to Information, Public Participation and Access to Justice in Environmental Matters (“Aarhus Convention”),<sup>21</sup> have not been ratified by Ghana.

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<sup>19</sup> See Principles 10 and 22 of the Rio Declaration on Environment and Development; the CBD ‘programme of work’ to ensure full and effective participation of indigenous peoples (adopted as an Annex to the CBD COP 5 Decision V/16); and the ‘Guidelines for establishing and strengthening local communities’ and indigenous people’s participation in the management of wetlands’ (adopted as an Annex to Resolution VII.8 of the San Jose Conference).

<sup>20</sup> E.g. see Art 10 and 11 of the Convention on Biological Diversity (ratified by Ghana in 1994); Art 9 of the UN Convention Against Corruption (ratified by Ghana in 2007),

<sup>21</sup> <http://www.unece.org/env/pp/AarhusMap.html>



**Table 2: Procedural Rights in Treaties Ratified by Ghana**

Instrument Ratified by Ghana	Date	Article	Comment
International Labour Organisation	6 of the 7 fundamental conventions between 1957 and 2000.	Article 24: “In the event of any representation being made to the International Labour Office by an industrial association of employers or of workers that any of the Members has failed to secure in any respect the effective observance within its jurisdiction of any Convention to which it is a party, the Governing Body may communicate this representation to the government against which it is made, and may invite that government to make such statement on the subject as it may think fit.”	Establishes a mechanism for non state actors to make claims when a member is not complying with the convention.
Voluntary Partnership Agreement with EU	2009	Article 16. (2) “Ghana ... will promote appropriate strategies, modalities and programmes in consultation with relevant stakeholders in the implementation of this agreement.” Article 17. (1) “to minimize possible adverse impacts, the parties agree to develop a better understanding of the livelihoods of potentially affected indigenous and local communities as well as the timber industry, including those engaged in illegal logging.” (2) “the parties will monitor the impacts of this agreement on those communities and other actors. . . , while taking reasonable steps to mitigate any adverse impacts”.	Reinforces requirements to consult with multiple stakeholders, evaluate, minimize and mitigate impacts on livelihoods – at least with respect to the VPA.
The International Covenant on Economic, Social, and Cultural Rights	2000	Article 1: “In no case may a people be deprived of its own means of subsistence”.	Applied to REDD this suggests that REDD implementation should not deny access to forest-based livelihoods.
The International Covenant on Civil and Political Rights (ICCPR)	2000	Article 1: Includes the right to self determination and freedom to “pursue their economic, social and cultural development” Article 9: Includes a prohibition on arbitrary arrest and detention.	Article 1 suggests that people should be able choose to participate (or not) in REDD.
The United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)	Voted to adopt 2007	Article 19: States shall consult and cooperate in good faith with the indigenous peoples concerned through their own representative institutions in order to obtain their free, prior and informed consent before adopting and implementing legislative or administrative measures that may affect them. Article 27: States shall establish and implement, in conjunction with indigenous peoples concerned, a fair, independent, impartial, open and transparent process, giving due recognition to indigenous peoples’ laws, traditions, customs and land tenure systems, to recognize and adjudicate the rights of indigenous peoples pertaining to their lands, territories and resources, including those which were traditionally owned or otherwise occupied or used. Indigenous peoples shall have the right to participate in this process.	The UNDRIP is a not legally binding under public international law but was endorsed by Ghana at the general assembly. Its status under Ghana’s laws should be determined, and the principles respected. A number of additional provisions may be relevant.
The Convention on Elimination of All Forms of Discrimination against Women	1986	Article 14: Affirms that development plans must take into account “the particular problems faced by rural women and the significant roles which rural women play in the economic survival of their families, including their work in the non-monetized sectors of the economy”.	This is particularly significant in the case of forest resource use, and should be taken into consideration in national REDD policy

The need to promote full and effective participation of indigenous peoples and local communities has also been recognized under the UNFCCC, during the meeting of the Subsidiary Body for Scientific and Technological Advice (“SBSTA”), in the context of methodological guidance on REDD.<sup>22</sup> Similarly, the draft LCA text on REDD+ affirms the principle of broad country participation and makes reference to the establishment of safeguards that:

“complement or are consistent with relevant international conventions and agreements”;

“respect the knowledge and rights of indigenous peoples and members of local communities, by taking into account relevant international obligations, national circumstances and laws” with an explicit reference to the United Nations Declaration on the Rights of Indigenous Peoples; and

advance “full and effective participation of relevant stakeholders, including in particular indigenous peoples and local communities (...)”.

In order to be effective, the proposed REDD+ principles and safeguards will have to be further elaborated and implemented at the national level. Below we discuss some additional instruments to ensure that non-state actors are endowed with basic participatory rights.

### **Due Process and Freestanding Subnational Activities**

Under a freestanding subnational approach, procedural rights associated with the implementation of REDD+ activities by subnational actors could be further secured via the use of international safeguard mechanisms. Procedures similar to the ones currently applied by the CDM could be used. A mandatory consultative procedure with local and international stakeholders could be part of the subnational activity approval process. These consultative procedures could take place both at the inception phase as well as during the monitoring period of a given subnational activity or program. Accredited international auditors would be charged with validating these consultative procedures and ensuring that all relevant questions and comments are effectively addressed.

Arguably, while the CDM procedures for securing access to information and participation of stakeholders serve as a model, these procedures would have to be improved and adjusted to fit REDD+ technical, social and environmental nuances. An international REDD+ mechanism should clearly establish the procedural rights of project participants and stakeholders and provide an international mechanism for redress and resolution of disputes. These could include allowing persons with a direct and material interest in the implementation and approval of a REDD+ subnational activity to (i) express their views; (ii) have these views and positions considered and addressed; and (iii) have the right to appeal to a review system in the event that his/her rights are disrespected or its interests negatively affected by a decision of an official body or accredited entity.

In addition, procedural rights could be fine-tuned to cater for the particular risks that ill-formulated (or implemented) REDD+ subnational activities can entail to traditional and local communities. For instance, non-state actors involved as a project participant or local stakeholder in a REDD+ subnational policy or program could be endowed with the right to request a temporary suspension of the project approval process at the international level (for instance, suspension of the registration process or the issuance of credits) whenever a conflict among project participants or between project participants and

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<sup>22</sup> See Methodological Guidance by the Subsidiary Body for Scientific and Technological Advice, paragraph 1(c), document FCCC/SBSTA/2008/L.23. See also Recitals of the COP Meth Decision (footnote 1 above).

stakeholders arises. Such request for suspension would remain effective until the dispute is resolved at the domestic level.

The Ghanaian DNA, or perhaps the REDD+ Steering Committee depending on roles that are defined, could establish and check that some social safeguards and procedural rights are adhered to, but stakeholders would also need to have options to challenge and request a review of any decisions of the DNA.

A national regulatory body would be tasked with the responsibility of supervising REDD+ implementation. Assuming there are no conflicts of interest with their other activities, in Ghana this could be performed by the Environmental Protection Agency which is charged with review of environment and sustainable development activities. Oversight functions would include (i) guaranteeing full access to information through regularly exchanging information with stakeholders and project participants and publishing relevant REDD+ policies, programs and projects;<sup>23</sup> (ii) endorsing benefit-sharing arrangements; (iii) verifying the existence of prior informed consent by traditional communities when required; and (iv) hearing complaints by stakeholders and administering conflict resolution procedures.

The country could also establish one or more (permanent) advisory panels composed of representatives of the different civil society groups. Such advisory panel(s) would have to be consulted before relevant decisions related to REDD+ development were taken. In order to be closer to the reality of the different Ghanaian regions and more effectively deal with subnational level activities, these advisory panels could be established within District authorities and/or the District Assembly.

### **Due Process and Subnational Activities within National Accounting**

Once a national REDD+ system is up and running, countries would have to articulate additional procedural rights and remedies to non-state actors involved in REDD+ through national laws and regulations (likely following the agreed upon multilateral or bilateral international guidelines). Most importantly, countries would have to maintain the appropriate institutional set-up to secure and enforce participatory rights. The same review process for administrative decisions, regulatory bodies, and advisory panels mentioned for freestanding activities would still apply. However, some of the scope of work of these bodies may need to be adjusted if, for example, the government received and then distributed credits or funds (rather than allowing direct receipt by the subnational activities). In this scenario, decisions around allocation of credits and/or benefits would likely come under particular scrutiny.

Demonstrating that REDD+ procedural principles and guidelines are being respected and effectively applied at the national level could be made an essential requirement for a country to obtain (and maintain) the approval of its REDD+ national implementation plan or reference scenario under the UNFCCC or under a bilateral arrangement with a foreign country. The international supervision of a

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<sup>23</sup> The Ghana REDD+ R-PP implementation phase will also put into place an information clearinghouse database where specific activities will be tracked

country's performance and monitoring of compliance could be done, for instance, through independent review teams charged with the task of regularly assessing fulfillment of the procedural guidelines agreed upon internationally. Such assessments could be made publicly available and open for comments of other countries and international stakeholders.

## 4.2 Transaction-related Aspects

The different subnational approaches place different levels of responsibility on the Government of Ghana and result in different risk profiles for subnational actors engaging in REDD+ implementation and activities. Careful consideration of the pros and cons of each option will be needed to identify the most appropriate approach for the Ghanaian context.

### General Liability and Risks

Under the *freestanding subnational approach* subnational entities would have direct control over activities and programs implemented once approved by the Government. Subnational activities would likely function similarly to the CDM where subnational actors enter into direct arrangements with a foreign entity to (i) sell credits and, if needed (ii) obtain upfront investment for developing the subnational activity.

The sale of internationally issued REDD+ credits to industrialized governments or to the private sector could be in the form of (i) advance sales;<sup>24</sup> (ii) forward sale and purchase agreements;<sup>25</sup> (iii) spot sales;<sup>26</sup> and (v) call or put options.<sup>27</sup> Upfront investments could be structured using internationally allocated REDD+ credits as either (i) returns on investment<sup>28</sup> or (ii) loans.<sup>29</sup>

As the freestanding subnational approach depicts a scenario prior to the establishment of national reference level and accounting, the Government would not directly engage in selling credits or obtaining upfront investments. Neither would there be a national accounting framework in place. Hence, Government liability and national performance failure would not be an issue in this case. Subnational liability, in turn, would largely ensue from the capacity of subnational entities to perform under the international contracts entered into with the private sector and industrialized governments. In the event of a failure to deliver the agreed upon amount of credits, these subnational actors could be exposed to damages provisions that may require them to pay compensation or supply replacement credits. Here the capacity of subnational actors to negotiate the terms of their sale and purchase

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<sup>24</sup> Price and terms agreed with buyer before REDD+ credits are generated. Money paid after contract execution and in advance of delivery.

<sup>25</sup> Price and terms agreed with buyer before REDD+ credits are generated. Payments for credits made on delivery.

<sup>26</sup> Sale negotiated after generation of REDD+ credits. Delivery and payment occur very closely together.

<sup>27</sup> Sale of the right to buy or sell REDD+ credits at a defined point in future.

<sup>28</sup> Investment in the forest sector by a foreign government or private sector generates REDD+ credits that are returned to the investors. Investment occurs as debt or equity.

<sup>29</sup> REDD+ credits could be used to repay a loan.

agreements and the international REDD+ market scenario (whether a buyer or seller's market) would be key to dictating the allocation of risk between the contracting parties.

Under the *subnational activities within national accounting* approach (either with international or national crediting), the issue of liability would arise for the Government. Similar transaction structures as identified for freestanding activities could be used by the Government. If Ghana opts to sell national REDD+ credits under forward contracts or use such credits as collateral for a loan or equity investment, the Country can be held liable for the delivery of credits or through paying the replacement value. From an international law perspective, a reversal of carbon stocks (e.g., through an increase in deforestation rates) may result in a lack of new credits being issued in future crediting periods. Depending on the international rules, it may also result in the temporary loss of the eligibility to participate in REDD+ credit transfers.

In order to mitigate risks of reversal a buffer system could be introduced. If emissions increase at a point in the future, credits from the buffer account could be used to compensate this increase to ensure overall environmental integrity of the activity and the system.<sup>30</sup>

### **Intersection between National and Subnational Performance**

Challenges to integrating subnational activities under national accounting appear if the overall emissions from the host country exceed the national reference level. If this occurs, questions arise over whether or not successful subnational activities should be awarded any credits when the country as a whole failed to perform. This is a particularly acute risk for any investment in subnational activities as most investors do not have any influence or control over projects in other parts of the country that fail or national level policies and measures that are not successful. As discussed in section 2.1 above, a buffer account and guarantees can be used to help mitigate this risk. These are discussed in more detail below along with additional mitigation strategies.

Under a *national accounting with national crediting* of subnational activities (where Ghana would be issued credits first and then redistribute them to successful subnational actors), the key aspect for subnational actors would be to enter into an arrangement with the Government to determine how REDD+ credits would be disbursed and how to mitigate the risk that poor management elsewhere by the Government or failing subnational activities decrease or prevent the distribution of credits to successful ones.

#### *Mitigation Strategies*

Some options exist to deal with the risks associated with the interaction between national and subnational performance. These include (i) having the entities responsible for projects that fail pay

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<sup>30</sup> Under the voluntary market the size of the buffer is generally determined by risk factors specific to the project such as institutional risks, risks of climatic or geologic catastrophe, risk of fire or risks from the inability to protect the area against human actions. The option may also exist to increase the size of the buffer and not require subnational entities to specifically monitor leakage.

‘mitigation payments’<sup>31</sup> or supply replacement REDD+ credits; (ii) making use of insurance and guarantee mechanisms; and (iii) introducing a buffer system.

Mitigation payments would shift the consequences of underperformance to the entity that contributed the national level failure. If the Government failed, the Government would be liable to pay mitigation payments or supply the performing subnational actor with the corresponding amount of replacement credits. If the subnational projects failed such that their emissions increased, then the sponsors of these activities would be liable to pay mitigation payments or supply replacement. The downside to mitigation payments is that the beneficiary is exposed to the credit rating of the entity that failed. If the sponsors behind a failed subnational activity are bankrupt or do not have the funds to compensate the performing activities the system does not work. This is also true if the government is the entity that failed. The creation of insurance tools against such risk may become an opportunity in this scenario, but their development rely on insurance companies being able to accurately quantify this risk, generate sufficient volume of policies, and generate a return on these policies.

The Government of Ghana could also purchase tailored insurance products to ensure its commitment to make mitigation payments or supply replacement credits to performing subnational entities. Alternatively, political risk guarantees, partial risk guarantees, or payment default guarantees could be provided by Ghana (sovereign guarantee) with the support from multilateral institutions such as the World Bank and regional development banks.

In the event a national buffer account is set up for each host country at the international level, Ghana could draw from such buffer account to ensure national emissions meet the national reference level. Once national emissions have been trued up, remaining credits could be distributed to successful subnational activities. The downside to a buffer system is that it is in effect a tax on the country and on the subnational activity that reduces the return on REDD+ investment. Note also that the implementation of a buffer system at the international level has not been officially introduced in the negotiations for an international REDD+ mechanism and its potential use as a mitigation option is therefore highly uncertain.

Irrespective of the mitigation option, rules will need to be created to determine how to allocate limited credits or compensation amongst successful subnational activities if the total demand for credits or compensation still exceeds supply. The most equitable solution would likely be a pro-rata distribution unless special seniority rights had been negotiated and agreed with the Government in a appropriate manner.

### **Attractiveness to Private Finance**

A number of private sector investors have stated that they would be less inclined to invest in REDD+ if central governments were significantly involved in REDD+ implementation, yet lacked sufficient

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<sup>31</sup> This is discussed in, for example, a presentation prepared by Brian Shillinglaw of New Forests titled “Nested REDD policy design options: a brief overview” and O’Sullivan, R., Streck, C., Pearson, T., Brown, S. and Gilbert, A. (2010) *Role of the Private Sector in Generating Carbon Credits from REDD+*, Report to the UK Department for International Development (DFID).

governance or capacity to demonstrate that they could effectively reduce emissions.<sup>32</sup> From this perspective, the freestanding subnational approach represents the scenario that would likely attract most interest from the private sector as subnational activities would be entirely de-linked from the overall mitigation performance of the host country. However, this approach has the least amount of traction within the UNFCCC. In contrast, the scenarios in which national performance has an impact on the ability for subnational activities to receive credits is preferred by many UNFCCC Parties but are likely to be perceived as riskier by investors.

Where there is national accounting the national crediting option would be deemed riskier than the international crediting. This is because the former places greater dependence on the Government of Ghana, which would be responsible for a number of tasks associated with subnational activities such as approving reference levels, verifying reductions/removals, and redistributing credits. Each of these additional tasks increases the institutional requirements of the Government.

It is important to emphasize, however, that government involvement does not necessarily mean the private sector will not invest. In some instances – such as offering guarantees or clarifying titles to credits – the Government may play a role to help reduce investment risk. The participation of the Government of Ghana in REDD+ is expected and will be essential to tackle deforestation in the long term. Some of the issues discussed in this section may however lessen the overall perception of risk and help Ghana attract greater interest from private funding sources.

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<sup>32</sup> See Estrada M., Corbera E., and Brown K., *Reducing Greenhouse Gas Emissions From Deforestation In Developing Countries: Revisiting The Assumptions*, December 2007, Tyndall Centre for Climate Change Research, Working Paper 115. This view was expressed at the workshop “International Roundtable on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries,” organized by Climate Focus, the Tropical Agricultural Research and Higher Education Center (CATIE), and Avoided Deforestation Partners, held in Brussels, October 24–25, 2007. See [www.adpartners.org](http://www.adpartners.org) for a summary of the workshop. It is also reflected in EcoSecurities Position Statement on REDD released in December 2008.

## 5. CONCLUSIONS

The benefits of encouraging subnational level activities before a national reference level and accounting system is in place include: (i) jump starting incentives for REDD+; (ii) maximizing the number of emission reductions generated in the near term; and (iii) helping build experience and capacity to scale up to national approaches.

To take advantage of these benefits as well as of the interest being shown by various civil society and private actors in early stage REDD+ activities, the Government of Ghana should quickly define a clear set of procedures and rules for carrying out carbon credit generating activities. These should include officially endorsing subnational activities and establishing transparent rules on the allocation of carbon rights, participation in subnational activities, and domestic approval requirements. The Government of Ghana would send clear signals to important development partners from the public and private sector and enhance the overall attractiveness of its national REDD+ scheme through the establishment of these rules. All of these will lessen risks for non-state actors to engage in REDD+ at the subnational level and help build the necessary infrastructure for managing national REDD+ activities in the future.

The design of a subnational approach for REDD+ should be informed by both the readiness process going on in Ghana as well as the emerging international REDD+ mechanism. Of the different subnational approaches being discussed at the international level, freestanding subnational activities as a step to national and subnational activities under national accounting and international issuance would likely be most suitable to Ghana. These subnational approaches require less onerous national institutional capacities and would allow immediate participation of subnational actors who are ready to engage in designing REDD+ activities.

Given that Ghana's R-PP aims to have a national reference level in place by end of 2013, the freestanding subnational approach discussed in this report could be considered a first step for Ghana to manage its accounting and actions related to crediting. This could be implemented in the near term through recognition of a credible voluntary market standard such as the VCS and CCBA, with appropriate caveats that this early and voluntary application of the VCS will not guarantee retroactive recognition under the UNFCCC or other compliance regime of any VCUs generated in Ghana. Ghana could then move on to the approaches with national level accounting in early 2014 once the national reference level has been completed. Given the added complexities and functions of the 2<sup>nd</sup> and 3<sup>rd</sup> subnational approaches, workshop participants will be encouraged to discuss the adequacy of these.



## ANNEX I – REDD+ ACTIVITIES

The following table provides a provisional overview of current REDD+ and carbon activities in Ghana. Information is based on consultation and internet research.

Project Name and Proponents	Location, Social Issues and Ownership	Land Type and Extension and Design Elements	Baseline and Project Activities (Source of Carbon Change)
<p><b>Name:</b> Forest, Climate and Communities</p> <p><b>Proponents:</b> Rainforest Alliance, Inc. funded by the Government of Norway's International Climate and Forest Initiative</p> <p><b>Source:</b> Project document</p>	<p><b>Location:</b> Western Region, pilot sites being defined,</p> <p><b>Social Context:</b> 3,000 forest-dependent families, 30 community based forest enterprises, 30 existing local governance councils</p>	<p><b>Land Type and Extension:</b> HFZ REDD pilot sites in the HFZ will be comprised of approximately 22,000 ha</p> <p><b>Design Elements:</b> - Targeting CCB and VCS certification</p>	<p><b>Baseline:</b> -</p> <p><b>Project Activities:</b></p> <ul style="list-style-type: none"> <li>- Community Capacity Building</li> <li>- Technical Assistance for SFM</li> <li>- REDD Activities and Strategies</li> <li>- Meet sustainability standards</li> <li>- Build market linkages and long-term commercial sourcing relationships</li> <li>- Monitoring and dissemination of impacts</li> </ul> <p><b>Projected Emission Impact:</b> Estimated potential of protecting forest from deforestation and degradation is on average between 75,000 and 80,000 tons CO<sub>2</sub>-e per year</p>
<p><b>Name:</b> A Rocha Ghana</p> <p><b>Proponents:</b> A Rocha, Climate Stewards (UK)</p> <p><b>Source:</b> <a href="http://www.carboncatalog.org/projects/a-rocha-ghana/">http://www.carboncatalog.org/projects/a-rocha-ghana/</a>; <a href="http://www.climatestewards.net/cs-int-en/projects/ghana.html">http://www.climatestewards.net/cs-int-en/projects/ghana.html</a></p>	<p><b>Location:</b> Kumasi in central Ghana and Damongo in the drier North of the country</p> <p><b>Social Context:</b> Wider community of the project area</p>	<p><b>Land Type and Extension:</b> -</p> <p><b>Design Elements:</b> Climate Stewards funds the materials, management, and training for community and student participation CCBA certification targeted</p>	<p><b>Baseline:</b> -</p> <p><b>Project Activities:</b></p> <ul style="list-style-type: none"> <li>- Reforestation on designates sites</li> </ul> <p><b>Projected Emission Impact:</b> Offset: 150,000 tonnes CO<sub>2</sub> 400,000 tonnes CO<sub>2</sub>e total</p>

<p><b>Name:</b> Restore Deforested Lands in Ghana</p> <p><b>Proponents:</b> Carbon Covenant Evangelical Presbyterian Church</p>	<p><b>Location:</b> Northern Ghana</p> <p><b>Social Context:</b> Two communities</p>	<p><b>Land Type and Extension:</b> -</p> <p><b>Design Elements:</b> -</p>	<p><b>Baseline:</b> -</p> <p><b>Project Activities:</b></p> <ul style="list-style-type: none"> <li>- Restore forests</li> <li>- Skills training for various sustainable livelihoods and business</li> </ul> <p><b>Projected Emission Impact:</b></p>
<p><b>Source:</b> <a href="http://www.co2covenant.org/site/c.lrKMIXPCImE/b.5466279/k.23FA/Restore_Deforested_Lands_in_Ghana.htm">http://www.co2covenant.org/site/c.lrKMIXPCImE/b.5466279/k.23FA/Restore_Deforested_Lands_in_Ghana.htm</a></p>			
<p><b>Name:</b> Agro-Forestry Company Ghana</p> <p><b>Proponents:</b> Form Ecology Consultants, Penta and Wienco Ghana</p>	<p><b>Location:</b> Degraded forest reserve of Asubima, north of Kumasi</p> <p><b>Social Context:</b> Direct employment amounts to 48 persons during the pilot (forestry engineers, nursery staff, plantation staff, security, drivers, administration), plus 50 part time jobs. Next to that 25-50 small holders will be involved in the project for agro-forestry. After the pilot direct employment will grow to 68 full time and 150 part time jobs</p>	<p><b>Land Type and Extension:</b> Demo plantation of 400 ha</p> <p><b>Design Elements:</b> -</p>	<p><b>Baseline:</b></p> <p><b>Project Activities</b></p> <ul style="list-style-type: none"> <li>- Establish plantation</li> <li>- Training in sustainable forest management and nursery techniques</li> <li>- Commercial forestry services (plantation management and certification)</li> <li>- Soil survey</li> <li>- Agro-forestry project with local farmers</li> </ul> <p><b>Projected Emission Impact:</b> The sustainable management of the plantation will have a positive effect on the restoration of a degraded forest area, preserving biodiversity, avoiding erosion and slash and burn practices. The plantation will be FSC and CO2 credits certified</p>
<p><b>Source:</b> <a href="http://www.evd.nl/zoeken/showbouwsteen.asp?bstnum=191113&amp;location">http://www.evd.nl/zoeken/showbouwsteen.asp?bstnum=191113&amp;location</a></p>			

<b>Name:</b> Carbon Credit Ghana Project	<b>Location:</b> Ashanti Region, Kumasi	<b>Land Type and Extension:</b> 50 acres of land	<b>Baseline:</b> -
<b>Proponents:</b> Vision 2050 Forest Foundation	<b>Social Context:</b> 150,000 people small/medium-scale farmers	<b>Design Elements:</b> Pay to participate and get seedlings and technical support, registration renewal annually. People without land can pay to participate and plant on the Vision Foundations land bank.	<b>Project Activities:</b> - Planting 450 million trees over a five year period - Establish land banks for people without land - Registry for people to sign on (pay to participate)
<b>Source:</b> <a href="http://vision.vision2050forestry.com/index.php?option=com_content&amp;view=article&amp;id=46&amp;Itemid=53">http://vision.vision2050forestry.com/index.php?option=com_content&amp;view=article&amp;id=46&amp;Itemid=53</a>			
<b>Name:</b> Arbocarb and partners in different areas, for example timber company in the pilot site bordering Ivory Coast	<b>Location:</b> Various locations <b>Social Context:</b> Arbocarb working with local landowners and farmers and offers them a share of the carbon credits	<b>Land Type and Extension:</b> <b>Design Elements:</b> -	<b>Baseline:</b> Heavily logged areas <b>Project Activities:</b> - Planting of 24 million trees in several areas of Ghana - Nursery  <b>Projected Emission Impact:</b> -
<b>Source:</b> <a href="http://news.bbc.co.uk/2/hi/8139351.stm">http://news.bbc.co.uk/2/hi/8139351.stm</a>			

<p><b>Name:</b> Nyankamba CREMA</p>	<p><b>Location:</b> West and Central Gonja Districts of the Northern Region of Ghana</p>	<p><b>Land Type and Extension:</b> 240,000 ha in the Nyankamba escarpment (Guinea Savanna Zone. The dominant vegetation type is savanna woodland. Tree cover is &gt;30%, though it should be noted that Ghana's official definition of forest, communicated to the CDM EB is &gt;15% crown cover</p>	<p><b>Baseline:</b> Slash and burn agriculture, cutting of forested lands for the production of fuel wood and charcoal for external markets, Damage to forest cover by pastoralists seeking fodder for their livestock during the dry season. Historic deforestation data is not available for this site, but a conservative 1% p.a. rate (1/2 of Ghana's national average) was considered for preliminary assessment purposes.</p>	
<p><b>Proponents:</b> Nature Conservation Research Center</p>	<p><b>Social Context:</b> Nyankamba Communités, traditional leaders and local government authorities</p>	<p><b>Design Elements:</b> -</p>	<p><b>Project Activities:</b></p> <ul style="list-style-type: none"> <li>- Agroforestry</li> <li>- Charcoal</li> <li>- Fire management</li> <li>- NTFP</li> <li>- Ecotourism</li> </ul>	
<p><b>Source:</b> Project PIN document</p>				<p><b>Projected Emission Impact:</b> 1.3 million tCO<sub>2</sub>e up to including 2017</p>
<p><b>Name:</b> Krokosoa to Bonsam-bepo Hills</p>	<p><b>Location:</b> The Brong-Ahafo region</p>	<p><b>Land Type and extension:</b> 300,000 hectares</p>	<p><b>Baseline:</b> -</p>	
<p><b>Proponents:</b> Nature Conservation Research Center</p>	<p><b>Social Context:</b> CREMA</p>	<p><b>Design Elements:</b> -</p>	<p><b>Project Activities:</b></p> <ul style="list-style-type: none"> <li>- Sustainable charcoal production project</li> </ul>	
<p><b>Source:</b> NCRC Project list</p>				<p><b>Projected Emission Impact:</b> -</p>