

The “Nested Approach”

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**Promoting Transformation by
Linking Natural Resources,
Economic Growth, and
Good Governance**



USAID
FROM THE AMERICAN PEOPLE

Nested Approach = A Joint- Effort

CATIE Centro Agronómico Tropical
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CLIMATE**FOCUS**



Chile

Ecuador

Honduras

Mexico

Panama

Paraguay

Peru

Underlying Assumptions

- Parties are aware of the costs and difficulties of reducing emissions from deforestation in developing countries and agree to use **market instruments** (tradable emission reduction credits) to mobilize sufficient resources.

- Parties wish a **broader participation** of developing countries, and not just of the few “big emitters”.
- Developing countries are willing to **scale-up** their contribution to climate change mitigation as they enhance their **capacity** to do so.
- **Private investment** in governmental programs is unlikely to happen at a large scale. Direct participation of the private sector, e.g. through projects, is needed to attract the required level of **financial and human resources** to REDD efforts.

Decisions CPI3 on REDD (ratified in Accra)

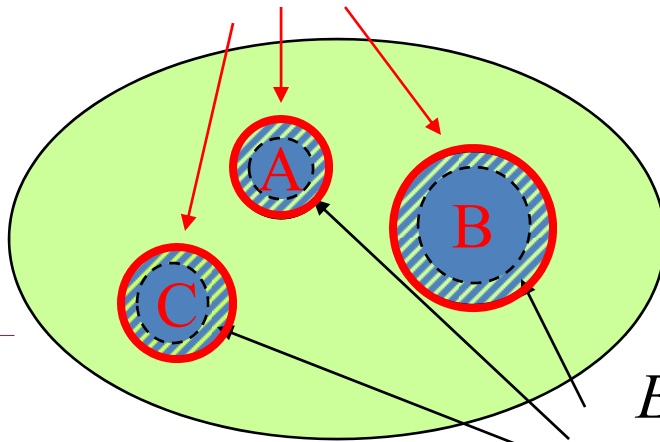
- Emission from deforestation will be accounted at the national and sub/national level.
- The inclusion of “sub-national” in the decision was not obvious.
- The door to develop REDD project activities remains open.

Significance of sub-national (project) activities:

- **Inclusiveness:** Not all countries are ready for REDD initiatives at the national level.
- **Broader participation:** More REDD activities at all scales (from project to national).
- **Faster learning:** More stakeholders involved in the process of developing REDD initiatives at different scales.
- **Scaling-up of mitigation efforts:** National and international private sector investing in the *generation* of REDD credits (and not just buying them).



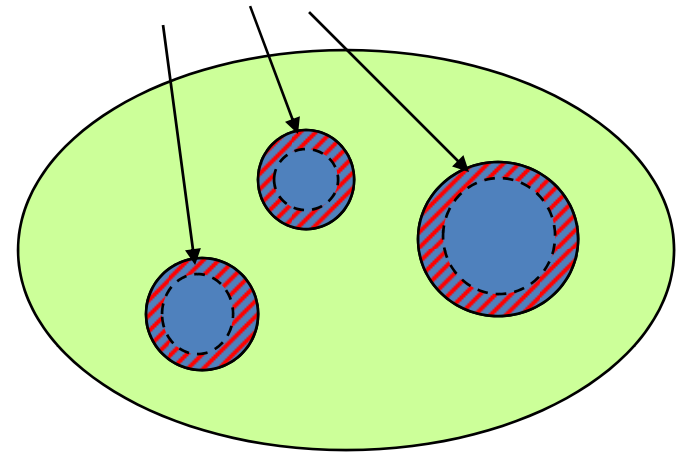
Implementation
of measures



Country X at time t ...

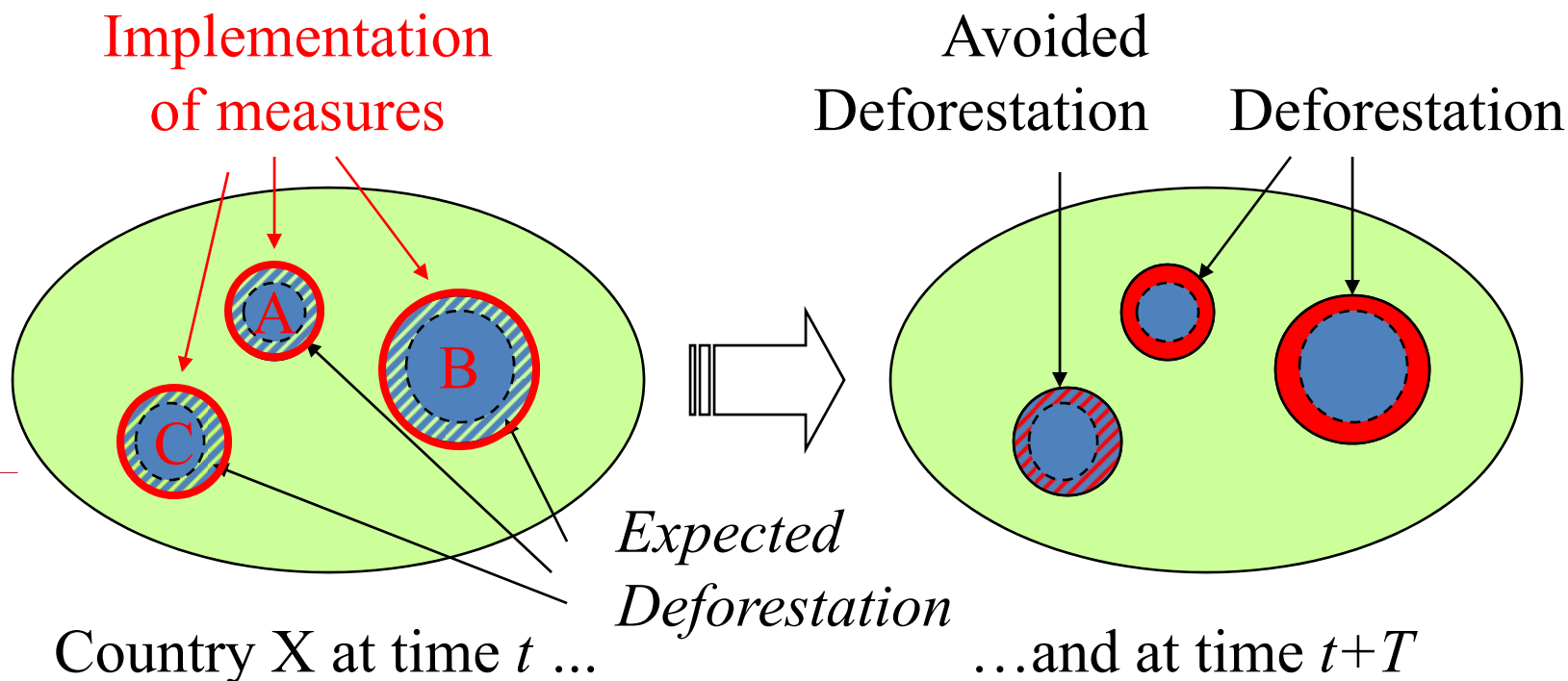
*Expected
Deforestation*

Avoided
Deforestation



...and at time $t+T$

-
- Deforestation is successfully reduced below the national emission reference level of the country.
 - The country gets credits.
 - The country can distribute credits or revenues to the sub-national project developers (A, B, C).



- Deforestation remains above the national target level, but is less than the reference level (because project C is successful).
- No credits are issued to the country.
- Project C, which was successful, does not receive any credit.
This possibility is too high risk for the private sector to invest in developing REDD-credits.
- The “Nested Approach” offers a solution to this problem.

The Nested Approach

Accounting and crediting would occur at two levels:

National level:

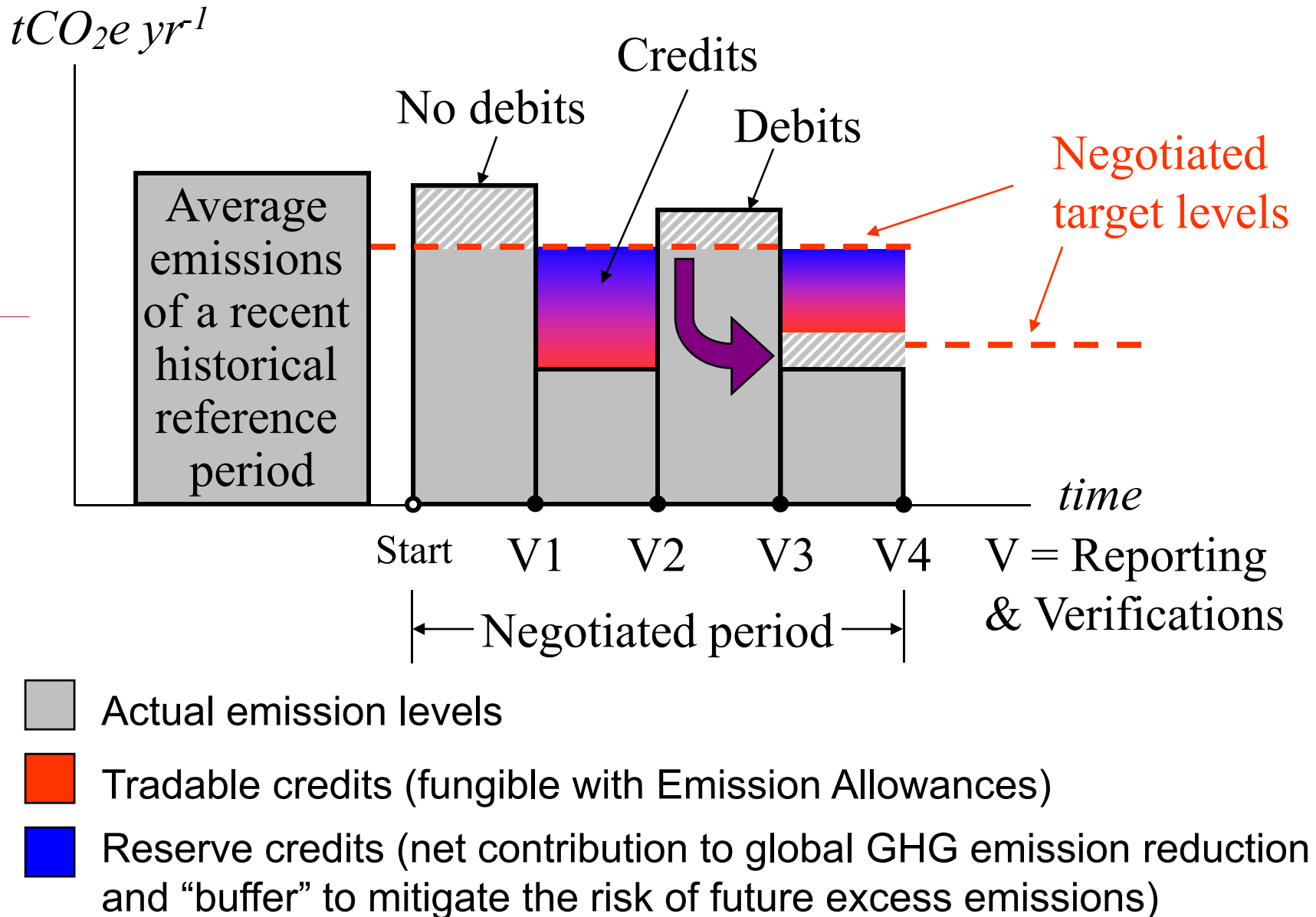
Governments are recipients of credits for emission reductions below a negotiated target and may redistribute the revenues from the sale of credits to local actors.

Sub-national level:

Sub-national entities, duly authorized by the host country to implement REDD project activities, are direct recipients of credits, regardless of national performance.

This creates an interest for the private sector to invest in credit *generation*.

National Accounting



National Accounting

- In case actual emissions are below the negotiated level:
 - The country gets credits.
 - A percentage (to be determined) of the credits can be transferred to countries with emission reduction commitments.
 - The remaining credits are hold in a *national reserve account*.
- In case actual emissions are above the negotiated level:
 - Excess emissions are to be compensated in the following period (except no credits were issued in past periods); or
 - Credits in the national reserve account are cancelled; or
 - Credits from a reserve account of another developing country are acquired (ET between developing countries); or
 - The level is revised due to *force majeure*.



Sub-national / project activities

- Sub-national / project activities can start at any time, independently from the adoption of a national program by the host country.
- Reference emission level (baseline):
 - A reference emission scenario is established using an approved methodology, or
 - If a national program exist, the reference emission level could be assigned by the host country to the project area.
- Leakage:
 - Is estimated and accounted using an approved methodology, or
 - The host country retains a number of credits in its national reserve account (pooled buffer) according to its own policies.

Scaling-up from sub-national to national

- Once XX% of the forested area of a country is included in registered sub-national/project activities, or after YY years since the registration of the first project, whichever comes first, the country will have to adopt a national target.
- By the time the thresholds XX% or YY have been reached, the country will have acquired sufficient capacities, including reserve credits, to be able to adopt a voluntary national target.
- A country can adopt a voluntary national target at any time.

Thank you!

