

Nature-based Solutions in Carbon Markets Technical Guidance Note on NbS to the Supervisory Body

October 10, 2021

1 Introduction

In early 2021, the Foundation Future of the Carbon Market commissioned a study on Nature-based Solutions (NbS) in Carbon Markets (<https://www.carbon-mechanisms.de/en/news-details/nature-based-solutions-in-carbon-markets-1>¹), including a consultation of the six UNFCCC's Regional Collaboration Centres (RCC). The study's conclusions include the need for international governance and support to enable NbS in national programs as well as international market mechanisms.

Based on these results and stakeholder feedback, as well as additional expert inputs, this guidance note summarizes responsibilities that could guide the NbS work of the supervisory body under the UNFCCC, including a set of questions to be answered and potential tasks, thereby informing negotiations under the Glasgow Climate Change Conference, as well as follow-up discussions and governance design.

The guidance note does not prescribe any organizational structure for governance bodies but focuses on the technical expertise needed. Understanding the questions to be answered will help determine what form a guiding body (or bodies) should have. It could vary, e.g. panel or main body, SBSTA work program or decision, or a stakeholder process (as seen with the DNA forum under the CDM), or a broader "NbS" hub synchronizing with other UN agencies (UNEP/UNDP) and NbS stakeholders.

2 Key Goals and Responsibilities on NbS of the Supervisory Body

Scale-up NbS implementation in carbon markets and national programs: Enable NbS GHG reduction projects covering a broad activity scope within national and international governance systems. Support countries in setting up ambitious quantitative targets and incentives for NbS in their NDCs and LTS to net zero and to foster international exchange of experiences.

Strengthen NbS governance and enable market integration: Frame and govern "permeability" of international and national markets including compliance and voluntary markets for NbS to avoid isolation. Contribute a foundation in the design of new markets and alignment of integrated "hybrid" models combining market mechanisms with jurisdictional programs to maximize climate benefits, scale up NbS activities, and accelerate implementation, delivering international guidance and support for capacity building and setup of domestic institutions or frameworks.

Disseminate solutions to NbS challenges: Leverage long-term experience, methodologies, and tools from NbS in voluntary carbon markets to ensure that large-scale NbS programs provide the required contribution to

¹ Compare also <https://www.carbon-mechanisms.de/fileadmin/media/dokumente/Publikationen/CMR/CMR-2-2021-a-web.pdf>

climate change mitigation. Address key barriers and implementation challenges, including governance on double counting and permanence risks drawing on already existing solutions such as risk buffers and corresponding adjustments.

Foster innovation to facilitate NbS implementation: Guide and support research on GHG impact quantification for new NbS activities not yet fully tapped by carbon markets and programs such as blue carbon and urban scopes. Coordinate development of respective quantification methodologies.

3 Key Questions on NbS Addressed to the Supervisory Body

In the table below, key questions are listed to guide the contextual work on NbS to the supervisory body, inspiring actions and discussions to ensure high-quality, scalable NbS implementation. Details and comments are provided to explain the content of the questions and trigger discussions.

	Key Questions on NbS to the Supervisory Body	Details and Comments
Policy	<ul style="list-style-type: none"> What additional guidance for the work of the supervisory body should be set out along with the COP Article 6 decisions? 	<ul style="list-style-type: none"> Technical specification or guiding principles, e.g. ITMO implementation guidance or requirements / quality criteria or requirements for specific components (e.g. projects, financing, training) relating to activities outside of domestic programs.
NbS Scope and Practices	<ul style="list-style-type: none"> What NbS practices and project types should be eligible in international markets and ITMOs? 	<ul style="list-style-type: none"> Project types: ARR, IFM, REDD, agriculture, blue carbon including wetlands. Practices: Compare table 1 on page 9 of NbS study (https://www.carbon-mechanisms.de/en/news-details/nature-based-solutions-in-carbon-markets-1). Expand scope to cities and encourage new blue carbon practices Prioritize projects that benefit both climate and biodiversity (e.g. no fast growing monoculture tree plantations)
	<ul style="list-style-type: none"> What type of GHG impact from NbS should be eligible? 	<ul style="list-style-type: none"> GHG impacts: removals, emission reductions, avoided emissions.
NbS Impact Quantification	<ul style="list-style-type: none"> What quality criteria should be applied to assess NbS quantification? 	<ul style="list-style-type: none"> Utilize existing quantification methodologies and tools from voluntary and CDM carbon markets (VCM, CDM). Access uncertainty of models and parameters applied. Assess options/criteria for direct integration of high-quality VCM standards. Go beyond carbon, require SDG impact quantification besides SDG 13.
	<ul style="list-style-type: none"> What baseline approaches should be considered for NbS? 	<ul style="list-style-type: none"> Prevent static (historic) or BAU baselines. Consider progressions over time and standardized baselines with regard to LTS and net zero. Consider conservative (i.e. underestimation of deforestation rates) baselining for avoided emissions.
	<ul style="list-style-type: none"> What crediting periods should be required? 	<ul style="list-style-type: none"> Removals: long crediting periods (e.g. >10 years) are required to account for slow buildup of soil carbon and carbon sequestration in biomass and prevent reversals. Emission reduction: short to longer crediting periods (e.g. 5 years, >10 years) depending on the activity (e.g.

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		<p>fertilizer reduction versus rewetting of organic soils) allow progression and innovation and prevent non-additional GHG reduction accounting.</p> <ul style="list-style-type: none"> ▪ Avoided emissions: long crediting periods (e.g. >20 years) to ensure long-term practice change. ▪ Rules should allow longer commitment (baseline re-assessment), but not hamper short-term action. ▪ Discuss crediting periods per specific practices.
<i>NbS Safeguards</i>	<ul style="list-style-type: none"> ▪ What safeguards are needed to ensure high quality of NbS and sustainable impact? In which cases should such criteria be specific to practices or impact types? 	<ul style="list-style-type: none"> ▪ Environmental: Draw from existing safeguards (e.g. VCM, REDD+, GCF). ▪ Social: FPIC (free prior informed consent) and on-site local stakeholder consultation for all NbS practices and approaches. ▪ Practice-specific safeguards, e.g. ensuring food security and avoiding negative impacts on environment and animal welfare for productive land use systems. ▪ Impact type-specific safeguards, e.g. permanence requirements for removals, conservative baselining for avoided emissions.
	<ul style="list-style-type: none"> ▪ How should trade-offs of GHG benefits vs. environmental, social or economic impacts be qualified and considered for NbS (trade-off between different SDGs)? 	<ul style="list-style-type: none"> ▪ Prioritization of potential negative impacts, definition of “no-touch” factors superseding climate action. ▪ Short term focus on win-win situations with no or minimal trade-offs to kick off programs. ▪ Implement compromise solutions to avoid negative impacts, e.g. separating or spatially interlinking high-production areas and climate programs to ensure food security as well as climate benefits. ▪ Foster innovation to identify NbS practices without negative impacts (e.g. precision application instead of area-wide fertilizer reduction to maintain productivity).
<i>NbS Implementation Support</i>	<ul style="list-style-type: none"> ▪ How can countries be supported to better enable NbS implementation in their NDCs (both in country programs as well as international market mechanisms)? 	<ul style="list-style-type: none"> ▪ Capacity building to set ambitious measurable targets for specific NbS scope or practices. ▪ Levels of ambition (current situation, forward looking elements (LEDs), neutrality). ▪ Setup strategies and frameworks, e.g. Fit for 55 package, Farm to Fork Strategy, Circular Economy Action Plan (all EU domestic).
	<ul style="list-style-type: none"> ▪ How can NbS-specific barriers be addressed to facilitate implementation on national and international level? 	<ul style="list-style-type: none"> ▪ Address and identify sectoral policy inconsistencies (e.g. productivity subsidies versus GHG targets). ▪ Build regulatory frameworks and best-practice examples. ▪ Build or provide capacity to set up and implement NbS programs ▪ Compile best practices to address risk of reversals for sequestration approaches (e.g. risk buffer, monitoring) ▪ Recommend financing options, guarantees, and insurance approaches.

4 Key Tasks on NbS of the Supervisory Body

4.1 NbS Governance

- Address conflicting policy situations due to “silo thinking” or counter-productive incentive systems (e.g. productivity targets versus landscape restoration) on national and international level, and contribute to conflict resolution (e.g. with best-practice examples).
- Govern quantification approaches (methodologies) for NbS (eligibility, developments, quality assurance): assess and expand the evolving set of methodologies and tools for NbS, including specifically approved methodologies and tools from existing schemes (CDM, VCM, national systems).
- Coordinate with key financing mechanisms to align incentives, performance requirements and quality criteria.
- Align and discuss with other Art. 6 working groups on key policies on market systems important for NbS (e.g. double counting risks in international markets, scope and criteria for corresponding adjustments, accounting rules and boundaries for programs across multiple countries, e.g. corporate scope 3 accounting and interventions within international supply chains).

4.2 NbS Solution Design

- Mobilize key stakeholders such as market experts, researchers, and policy makers to develop and align solutions and mechanisms suitable for NbS.
- Link to research and markets (including VCM and corporate scope 3 programs) to identify innovative approaches and best practices to facilitate NbS implementation and governance.
- Serve as a discussion platform and solution coordinator for NbS for core topics (e.g. permanence, activity eligibility, governance systems, markets alignment, quantification and performance monitoring).

4.3 NbS Expert Advice and Communication

- Act as point of contact with questions or issues on NbS integration.
- Engage with national governments to support NbS integration in NDCs and development in countries.
- Interact with COP negotiators, national governments, and market stakeholders, including voluntary carbon markets (VCM) and corporates to align quality criteria and overarching principles, avoid overlaps, prevent double counting and leverage synergies.
- Collect critical NbS opinions/statements and inform on solution approaches to facilitate national implementation of NbS respectively prevent re-discussing already solved issues.
- Proactively communicate and share information to build up an “NbS knowledge base”.
- Act as a platform to share best practices.
- Organize an annually forum for the exchange among UNFCCC Article 6 contact points on the development of NBS approaches in host countries, methodologies and experiences including the implementation of capacity building.

5 Further Discussion Points

The following expert feedback focusing on governance and political implementation will add further value to the discussion. The following points are stated:

- **Framework:** The definition of NbS guiding principles should be exclusively under the CMAs and art.6 rules. The supervisory body should focus on technical implementation of the overall guidance and principles established under art.6.
- **Organization:** The supervisory body could install suitable panels to manage the various NbS tasks ranging from working group or advisory panel interaction to governance decisions.
- **Alignment:** The supervisory body should engage with other UN agencies and organizations (e.g. UNDP, UNEP, FAO) to support countries in their struggle to implement NbS, including new NbS practices. The UNFCCC should draw the general NbS framework and rules within which existing UN agencies and programs should act.
- **Funding:** The supervisory body could act as a “door-opener” or gate-keeper for funds such as the GCF, assessing NbS-related projects and directing them to the “right” funding option or supporting entity.

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