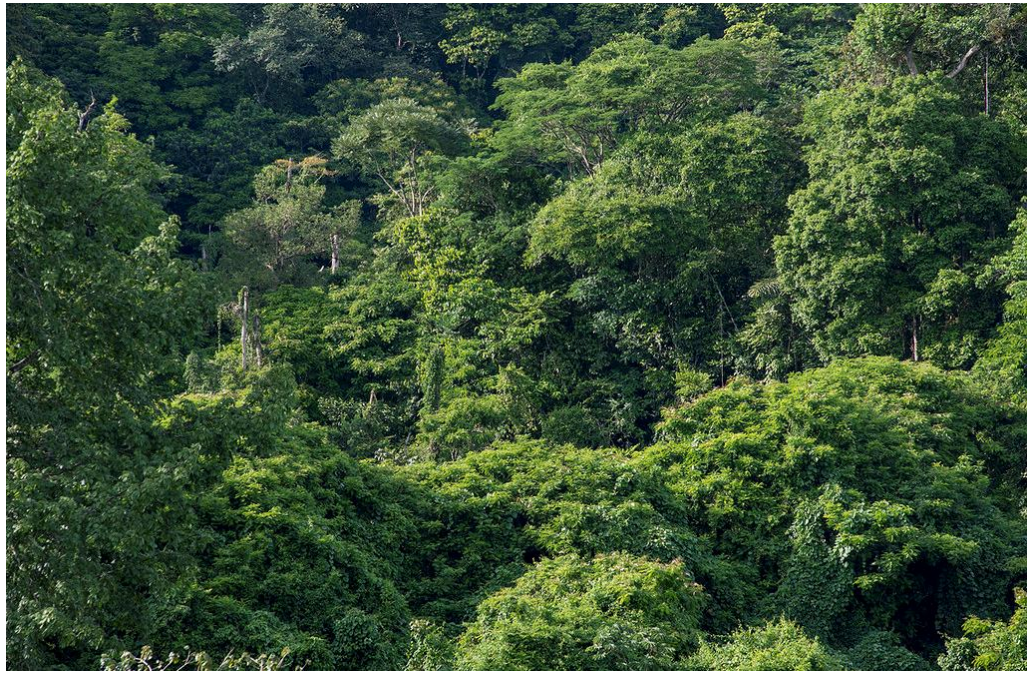
2d

HFLD Labeling

@John Hogg / Mozambique / World Bank

Background (1)

- In specific circumstances, the FCPF Methodological framework allows for the upward adjustment above average annual historical emissions for High Forest cover, Low Deforestation (HFLD) countries.
- Two countries, Democratic Republic of Congo (DRC) and Republic of Congo, proposed such an upward adjustment which was accepted by the FCPF.
- Emission Reductions generated as a result of this upward adjustment are not separated or labelled out from other emission reductions.
- Labelling of units from HFLD countries is currently done under the ART TREES standard, using its own methodological approach.
- There are conflicting views on whether HFLD units, derived using different methodologies, should be used for offsetting. Some buyers are not interested in HFLD units.
- In order to sell credits to third party buyers, DRC has requested FMT to enable the labeling of FCPF ERs that have been generated because of the upward adjustment.

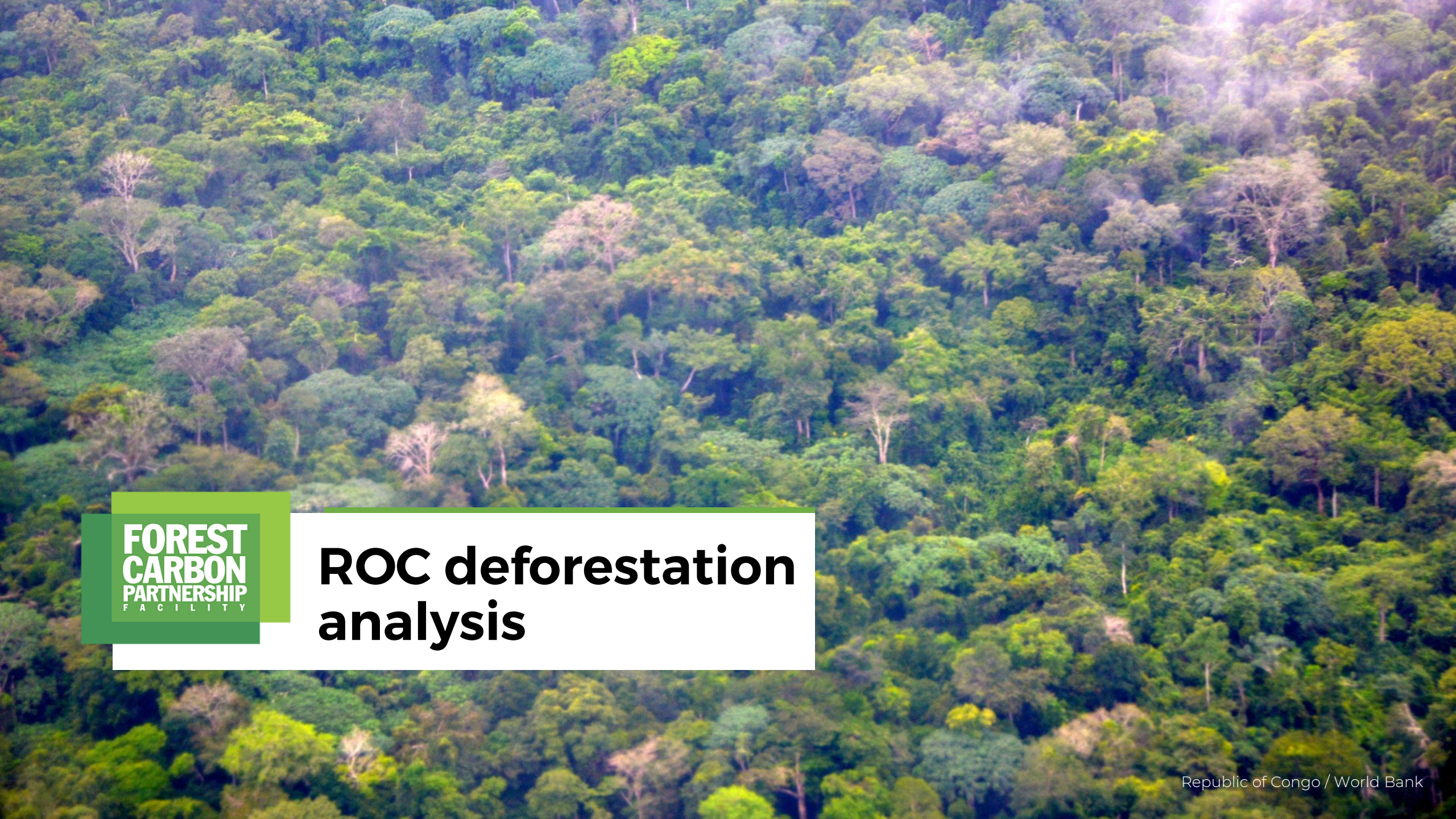


Background (2)

- CFPs approved such labelling but:
  - It would be done on an exceptional basis.
  - Would only occur once socialization of the FCPF methodology with buyers is made, and if buyers definitively confirm the need for labelling.
  - Requested the FMT to organize a session dedicated to the labelling of HFLD units under the FCPF.
- As part of the High Integrity Advisory Services and Analytics (ASA) project led by WB's Climate Finance Mobilization unit, the FMT will lead an HFLD analysis:
  - Test existing / new methodologies for HFLD units
  - In coordination with other initiatives (Singapore), convene a dialogue to discuss the adequacy of these methodologies to generate high-integrity credits.
  - WB Policy brief summarizing the findings.

Objectives of the session

- To better understand DRC´s request and position.
- To explore the environmental integrity of FCPF requirements related to HFLD countries:
  - DRC: Presented by Guy Ipanga, REDD+ Coordinator
  - ROC: Results of econometric modelling of deforestation presented by WB ENV
- Consideration by CFPs whether labelling of HFLD units should be allowed on a voluntary basis under the FCPF.
- Discussion on next steps to support the agenda.



FOREST CARBON PARTNERSHIP FACILITY

ROC deforestation analysis

Republic of Congo / World Bank

Protecting Forests in the Congo Basin: - An Empirical Basis for Performance-Linked Financing for the Republic of Congo

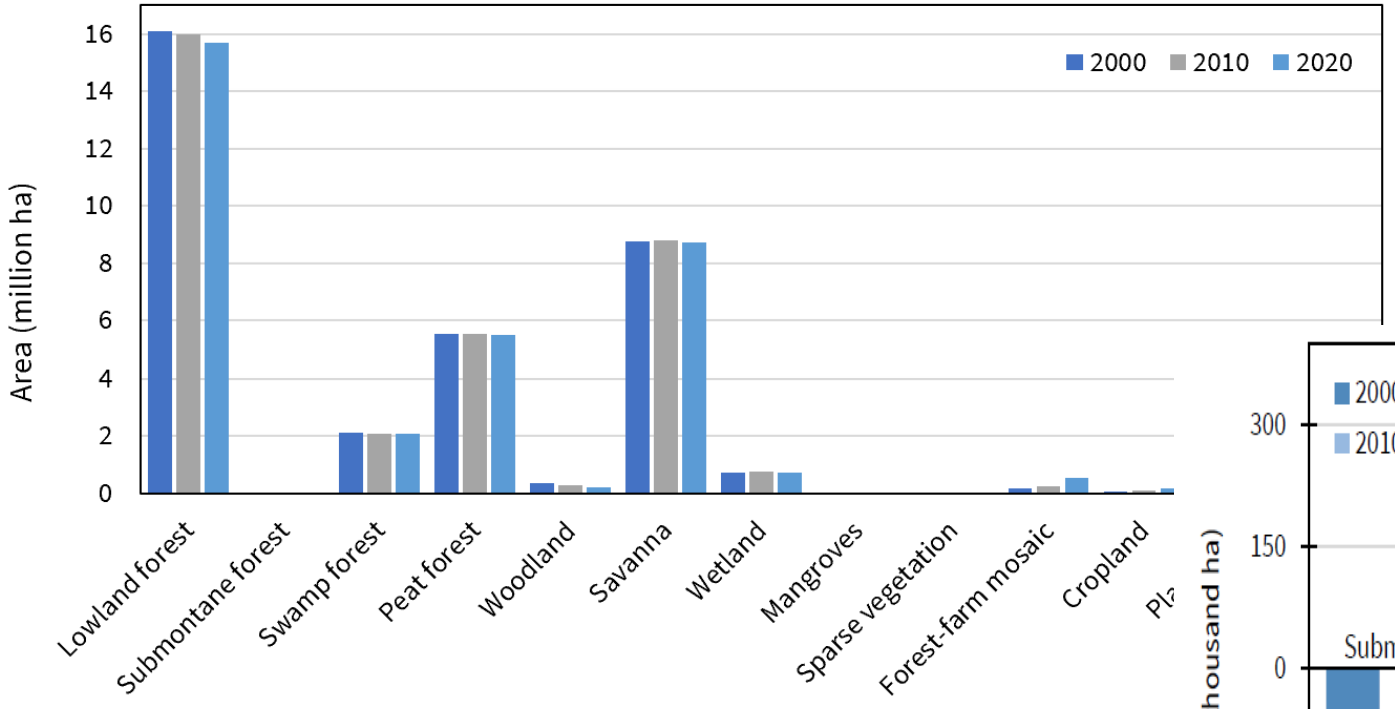
Kanta Kumari Rigaud, Dieter Wang
World Bank Team

June 12, 2025

Outline

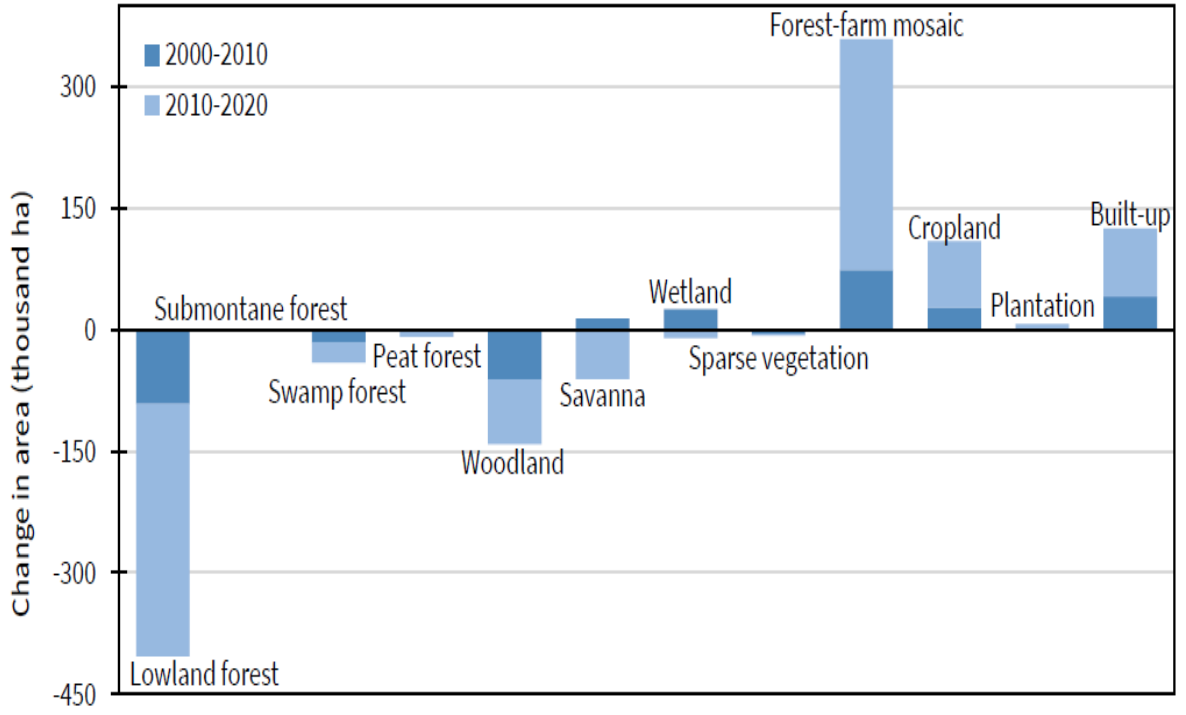
- Forest Assets – Forest Ecosystem Accounts
- Forest Carbon Offset Benchmarks using REACH
- Discussion

Snapshot: Forest Accounts for Republic of



Extent:

- Dominated by lowland forest, peat forest and swamp forest and sizeable savannah woodlands
- Some increase in farm mosaic and cropland



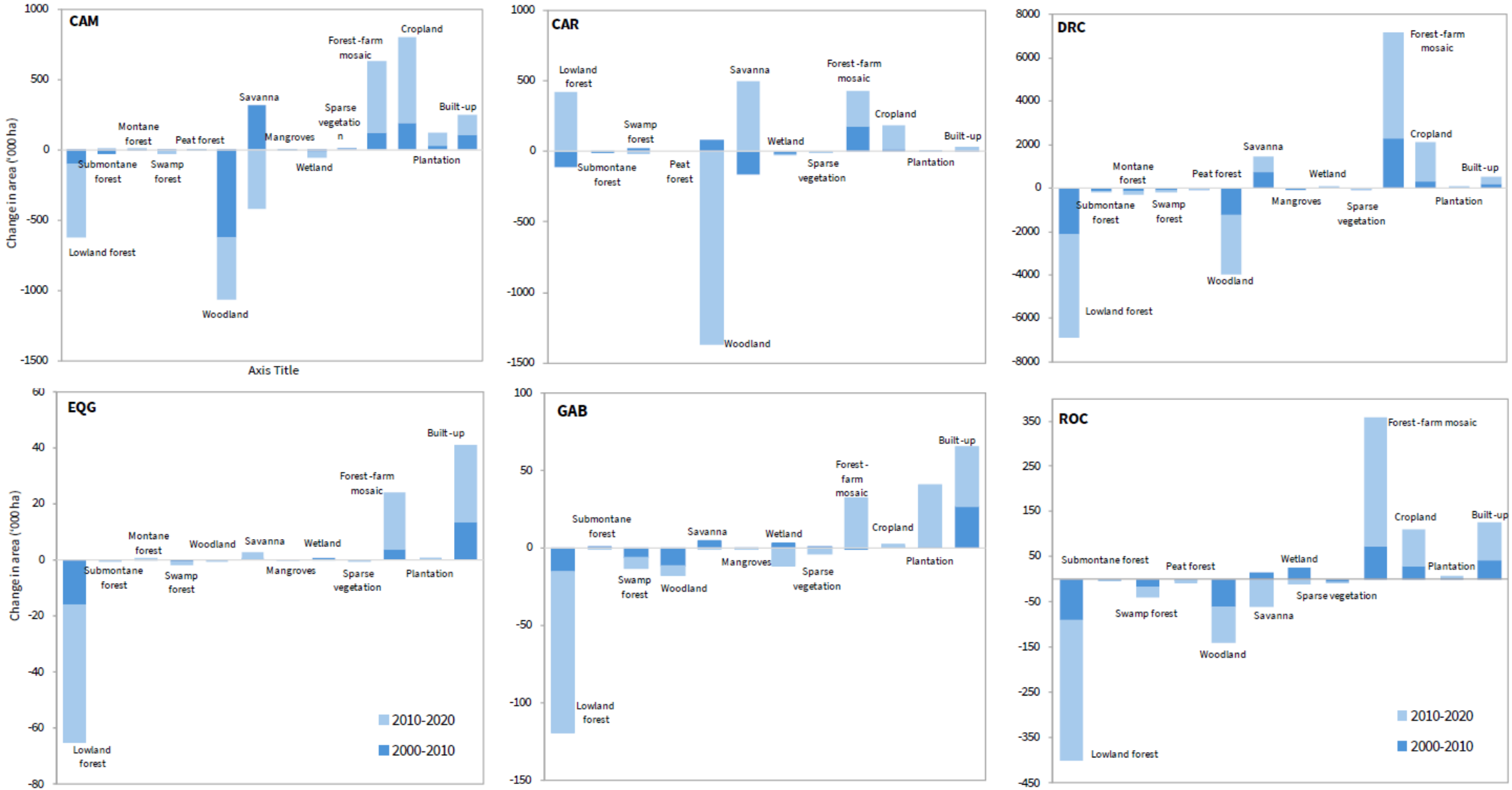
Change in extent:

- Lowland forests seen the most net change: between 2010 and 2020.
- Peat forests have remained remarkably stable.

Deforestation Baselines for

Figure 4.3 The change in extent of ecosystem types, measured in hectares, between the accounting years 2000, 2010 and 2020.

Snapshot: Forest Accounts for Congo Basin Countries

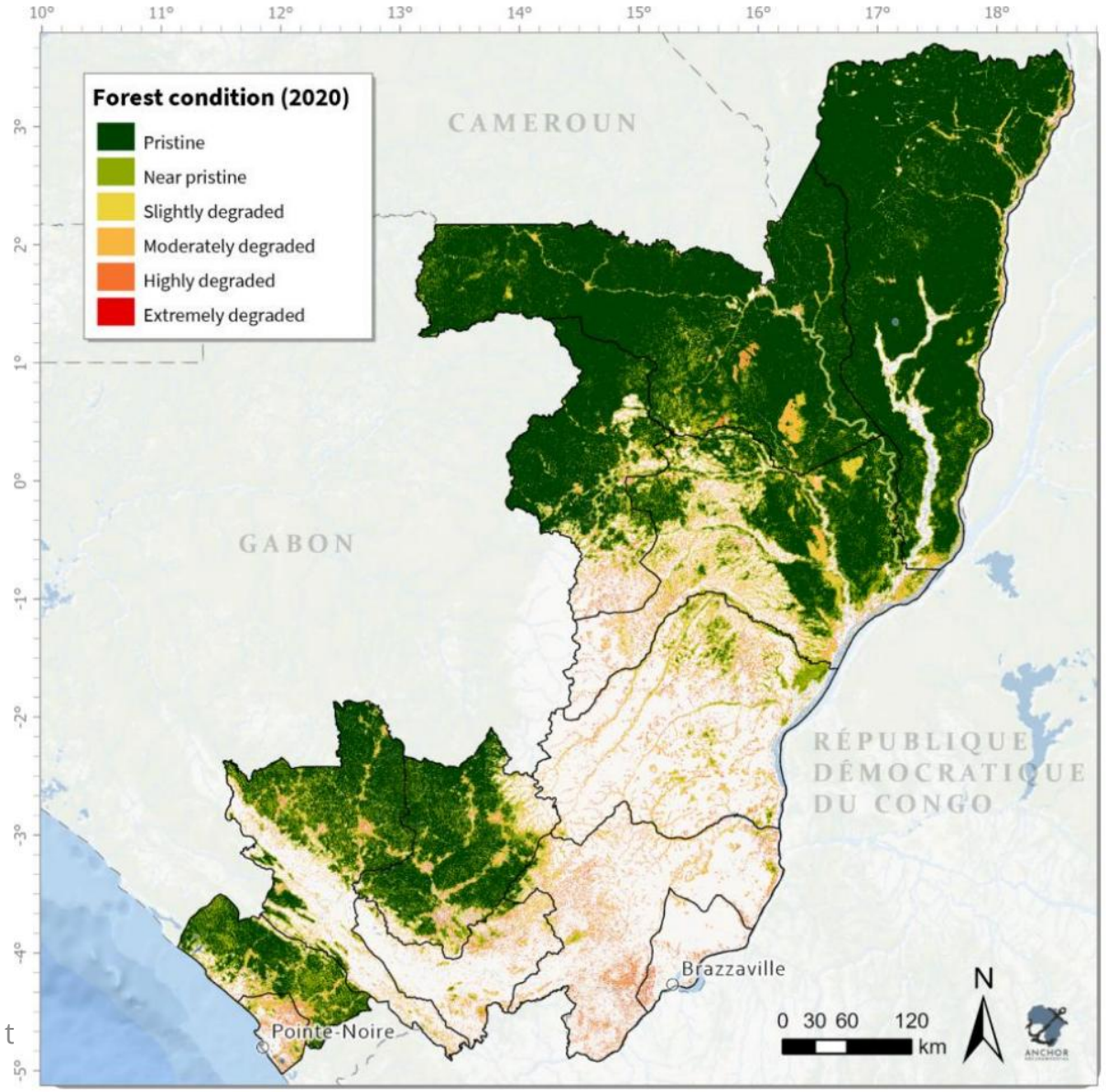


Source: This Study.

Forest Condition: Congo (2000-2020

- Pristine forests dominate large portions of the interior, particularly in lowland and swamp regions, reflecting areas of minimal human disturbance.

Condition rank	Condition name	Overall condition indicator
1	Pristine	0.95 – 1.00
2	Slightly modified	0.85 – 0.95
3	Slightly degraded	0.70 – 0.85
4	Moderately degraded	0.50 – 0.70
5	Highly degraded	0.25 – 0.50
6	Extremely degraded	0.00 – 0.25



Carbon retention service of the Congo Basin Countries

Figure O.6 Combined Carbon Retention by Forest Ecosystems in the six Central African countries

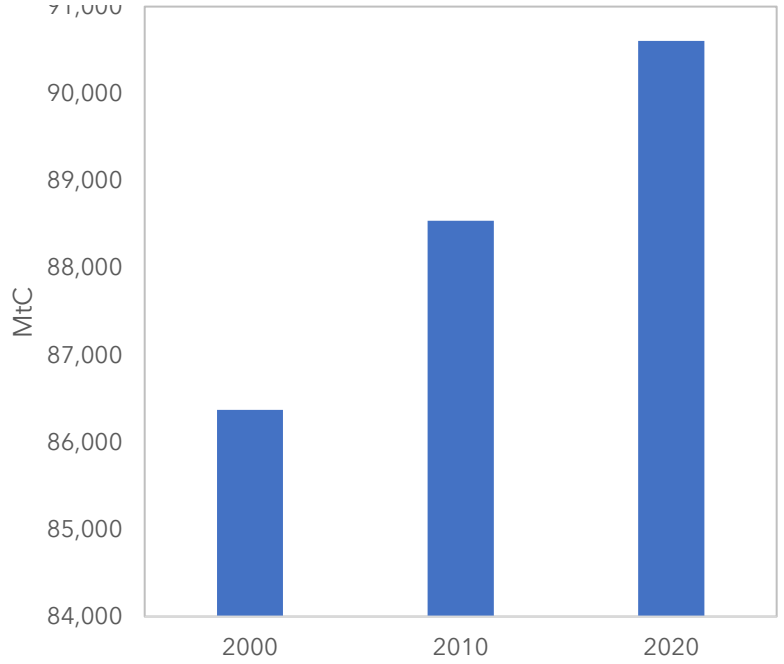
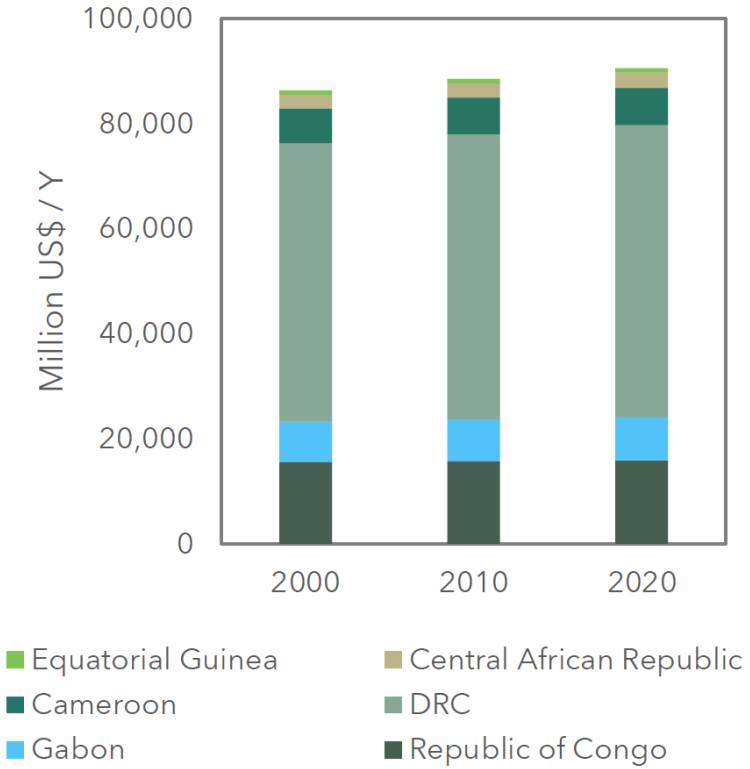
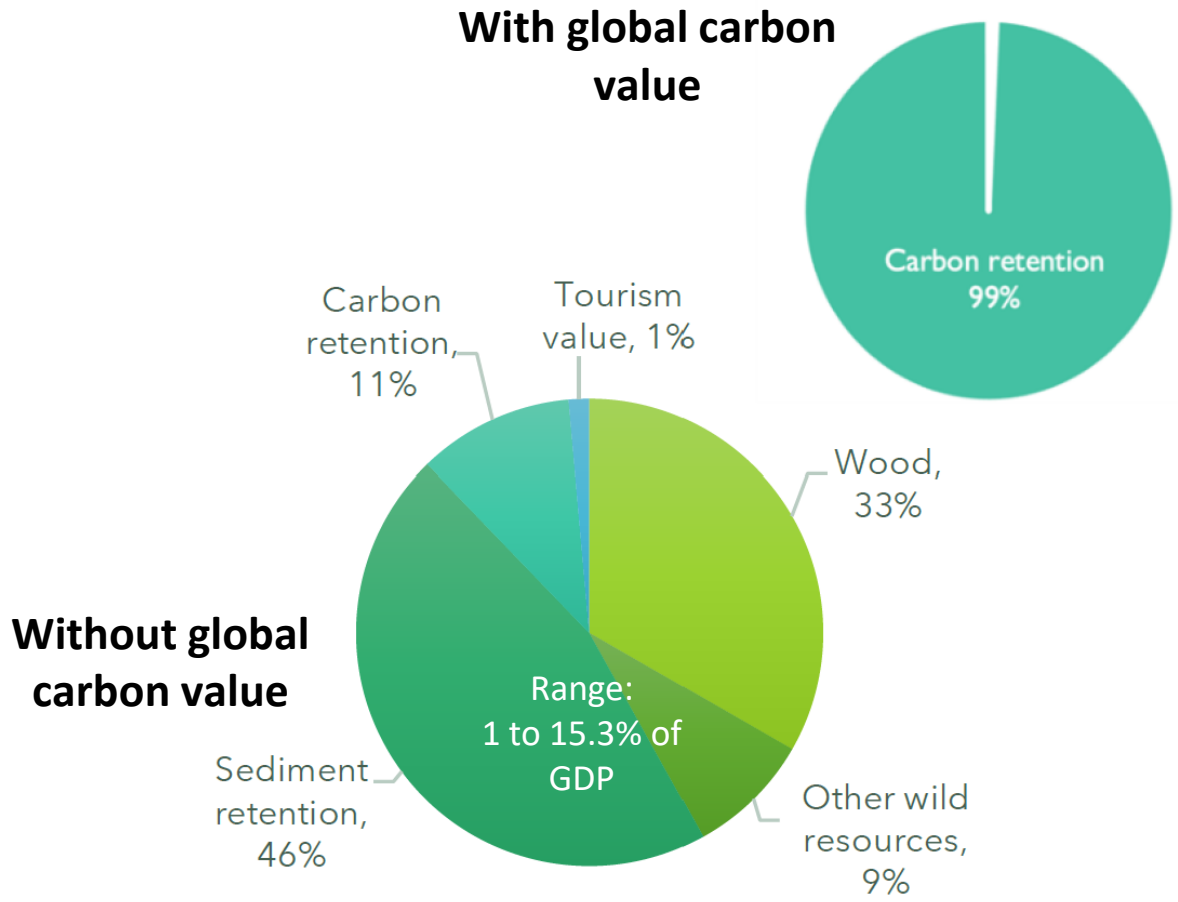


Figure O.8 Combined Carbon Retention by Forest Ecosystems in the six Central African countries



**Carbon retention valued in terms of social cost of carbon

Forest Ecosystem Values: Congo Basin (6 countries)



- **Global climate regulation service is the lion share of the forest ecosystem services**
  - The total monetary value of forest ecosystem services rose from US$520 billion in 2000 to nearly US$985 billion in 2020.
- **Domestic share of ecosystems services are still significant and must be secured.**
  - The combined domestic value of these services across the six countries amounted to US$4.8 billion in 2000 and US$ 7.8 billion in 2020
  - These range from 1% to 15 % of GDP in the countries

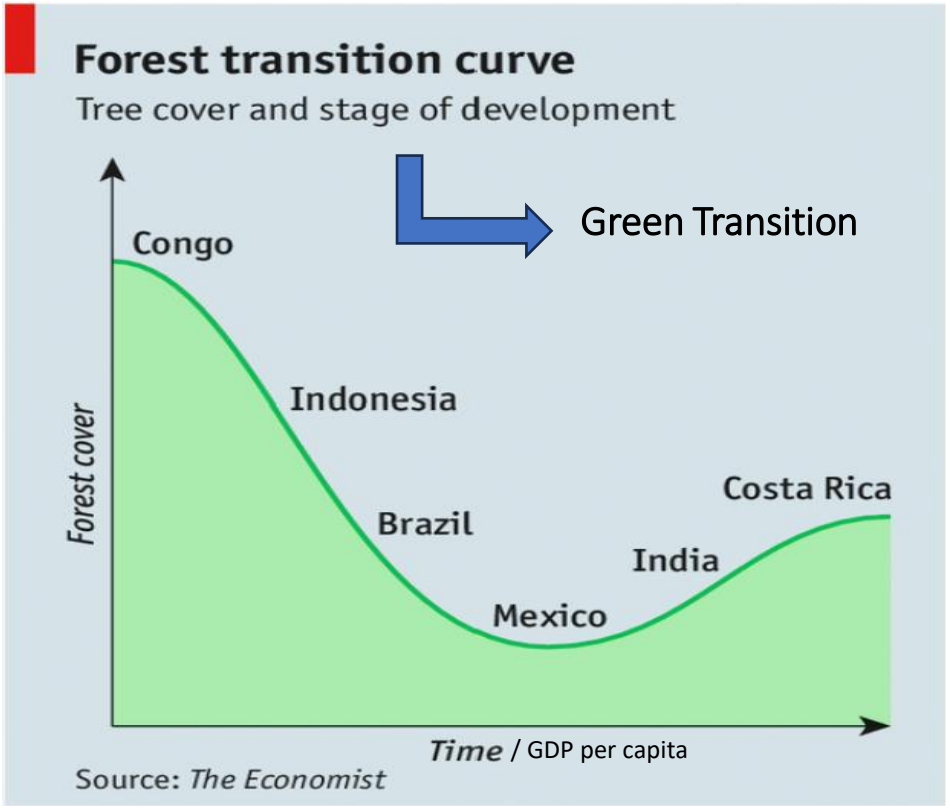
- **Monetization of ecosystem services,** including for global climate regulation**, is both a key gap and opportunity**

Protecting RoC's forests needs new financing

The Republic of Congo (RoC) is a high forest, low deforestation country, but maintaining this status will be challenging. Climate finance flows fall significantly short of RoC's **needs estimated at US$ 820 million annually**.

<u>Insights from the forest transition curve</u>

- Countries experience increasing deforestation pressure as they develop.
- As GDP per capita increases, RoC is likely to lose more forest at a higher rate.
- The economy needs to diversify beyond oil extraction: pressure on forests is rising.
- Forests must be seen for their full range of ecosystem services and goods.
- Unlocking the value of at-risk forests can move ROC towards a green transition without increasing deforestation



Outline

- Forest Assets – Forest Ecosystem Accounts
- Forest Carbon Offset Benchmarks using REACH
- Discussion

Why We Need Good Benchmarks for Carbon Offsets

- Carbon offsets represent a significant revenue opportunity for forest-rich nations like the Republic of Congo (RoC)
- However, the quality of carbon offsets is crucial to access this financing.
- Recent investigations highlight widespread concerns about *additionality* and *overestimation* of forest carbon offsets.
- "Greenwashing" accusations erode trust and demand.

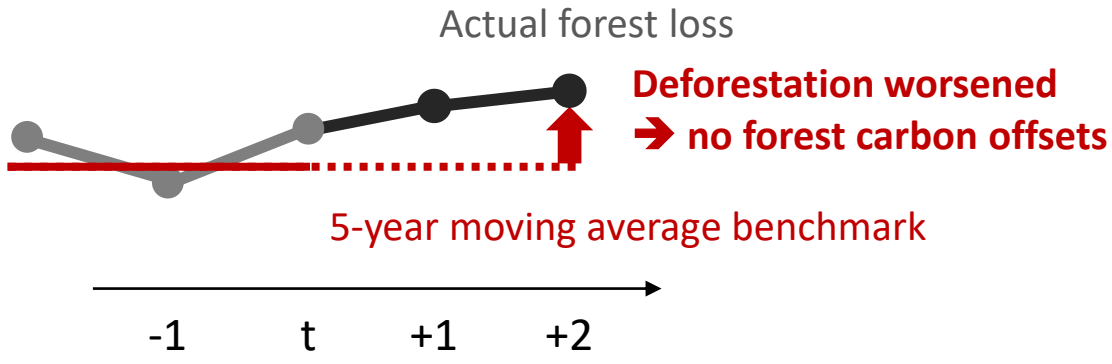
➔ **Rigorous, defensible benchmarks for avoided deforestation.**

Why Do Current Benchmarks Fall Short?

Forest carbon offsets are based on "avoided deforestation" → But how to measure how much was *avoided*?

Current REDD+ benchmarks

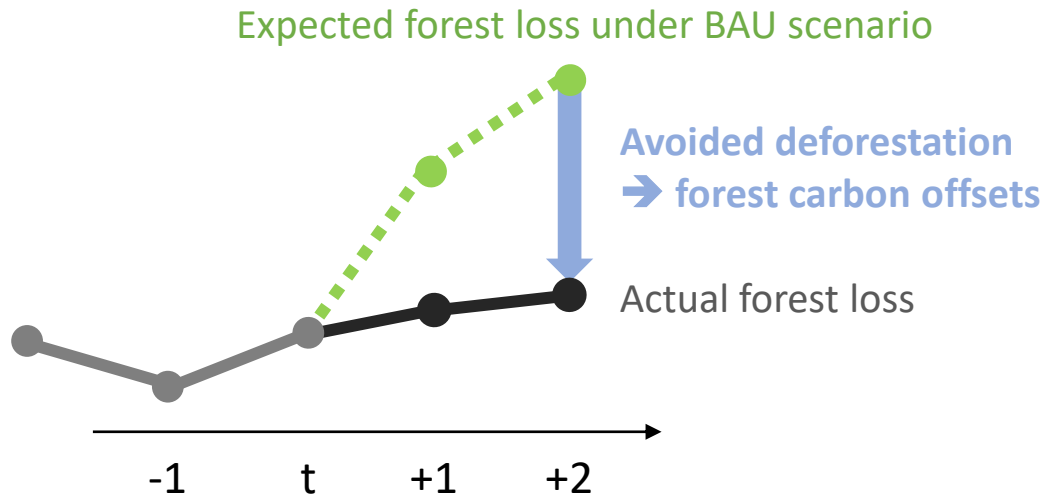
- 5-year moving averages of historical deforestation rates
- This neglects the effect of **exogenous deforestation drivers**, that are **difficult to control and avoid**.
- For high forest, low deforestation (HFLD) countries, this likely *underestimates* future deforestation pressures



Rationale for BAU benchmark using REACH*

- What was the *forest-at-risk*?
- How much forest would likely be lost anyways?
- How much forest was actually lost?

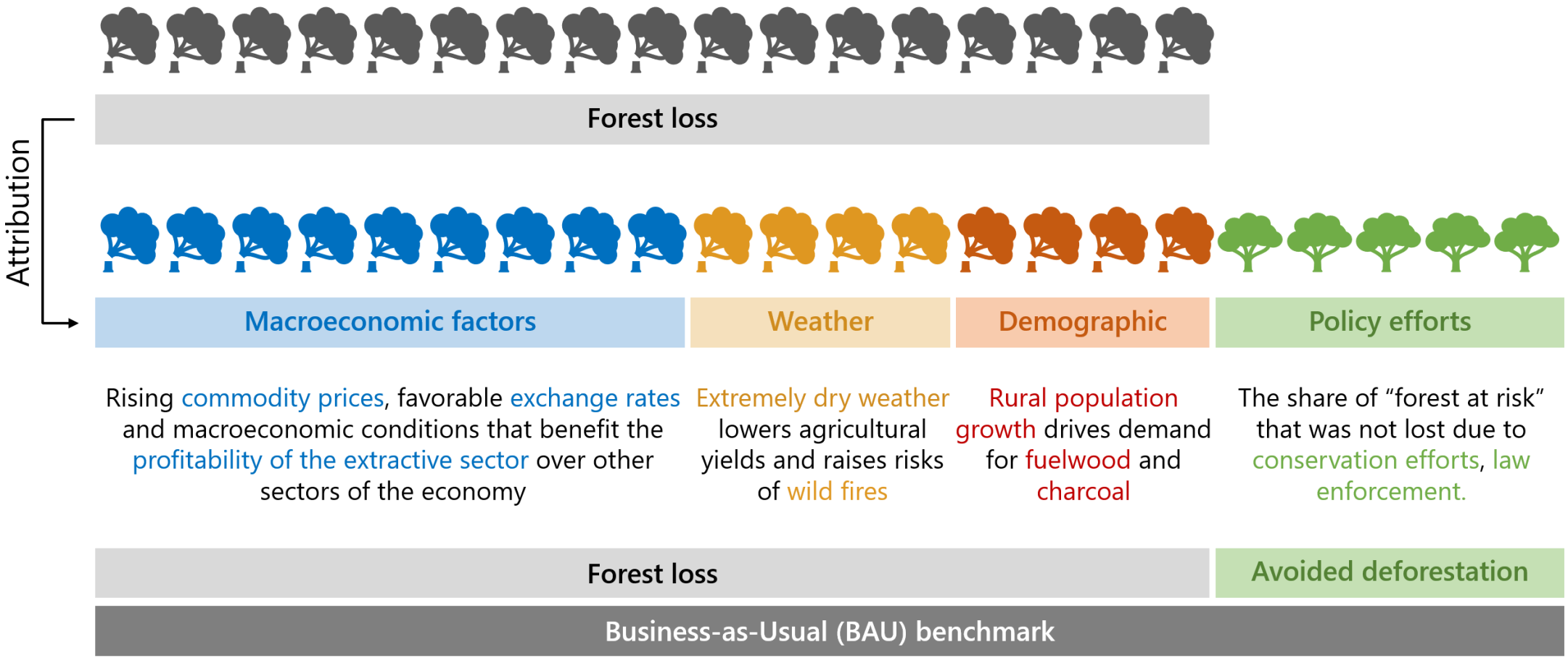
Avoided deforestation = Expected – Actual deforestation



*REACH: Relative Evaluation and Benchmarking, see Wang et al. (2023) "Could Sustainability-Linked Bonds Incentivize Lower Deforestation in Brazil's Legal Amazon?" World Bank Policy Research Working Papers.

Drivers of deforestation in RoC

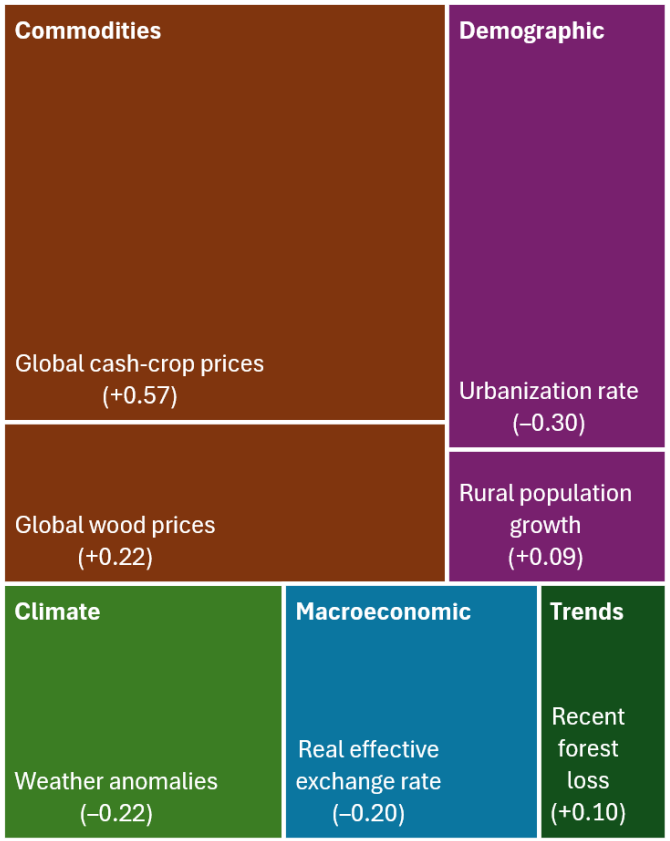
The BAU benchmark uses the REACH model to attribute forest loss to exogenous drivers of deforestation



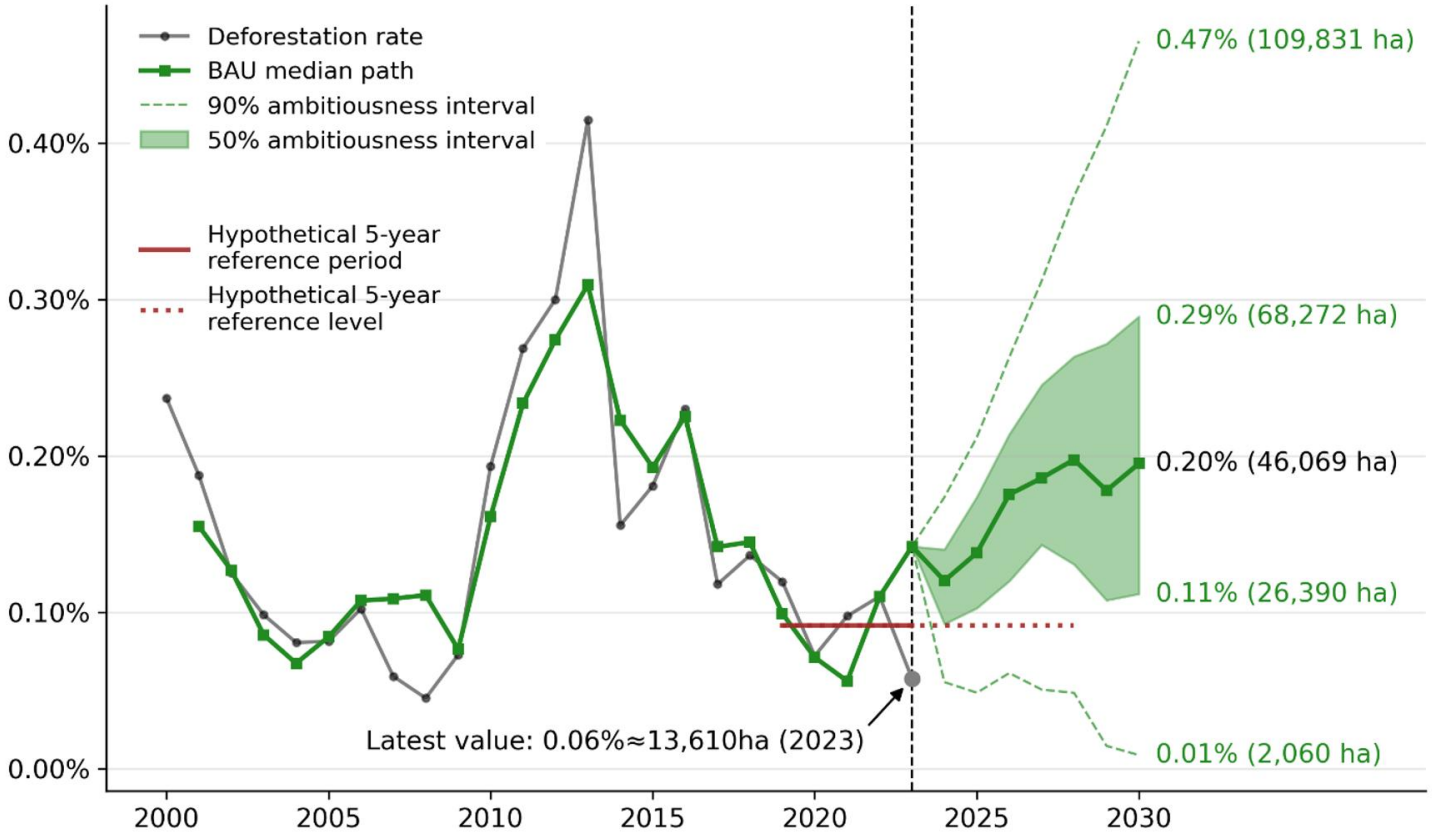
BAU scenario expects higher deforestation in RoC

By 2030, the expected forest loss under BAU is 46% higher than the moving average benchmark

Deforestation drivers in RoC

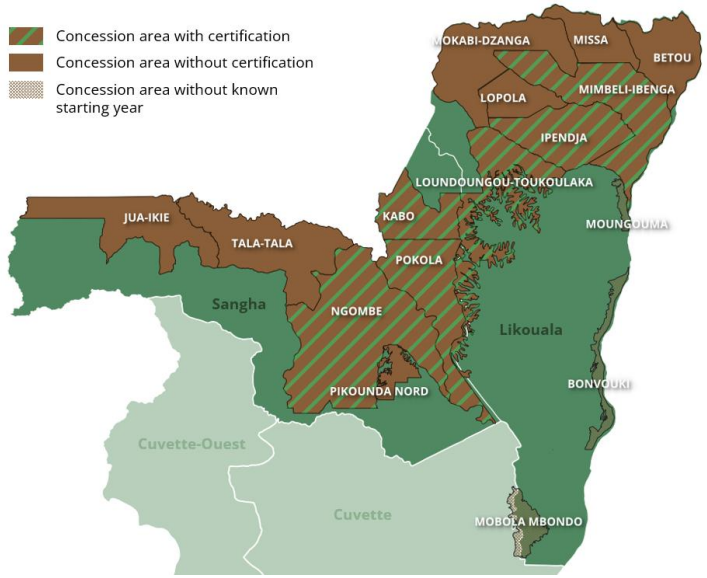


BAU benchmark using REACH model projections



Case study: Sangha and Likouala

Emission Reduction Program (ERP) baselines largely correspond to the REACH projections (50% forecast interval)

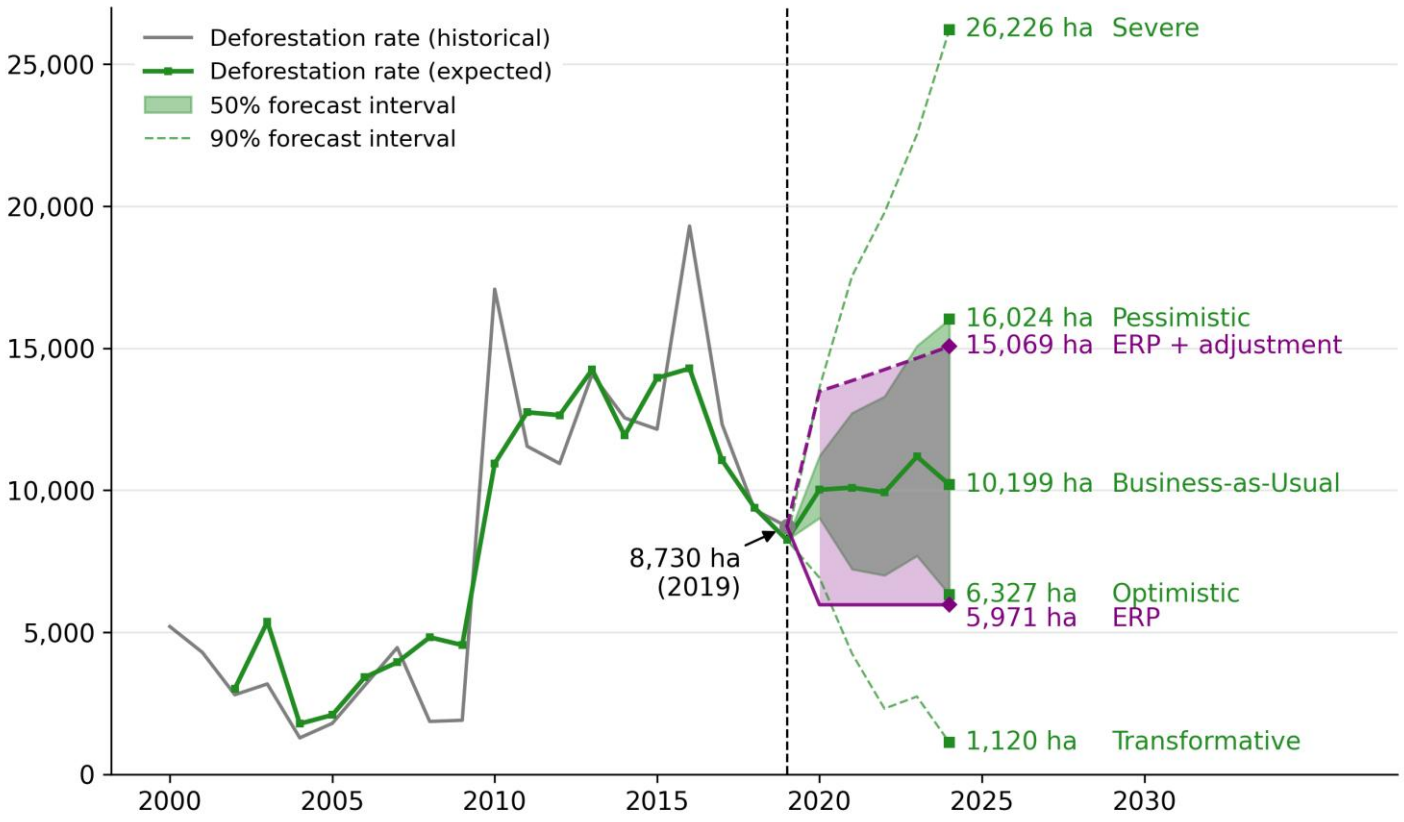


ERP adjustments (2019-2024) include

- Palm oil adjustments
- Population adjustments

➔ **REACH model provides a complementary view and can serve as benchmarks for carbon offsets**

BAU benchmark using REACH model projections



Discussion

- How can the Congo Basin countries manage their forest transition and best protects their assets?
- How to mobilize climate financing through monetization of its ecosystem services; particularly the carbon stabilization service?
- How to leverage transparent, robust KPI to build confidence of investors?

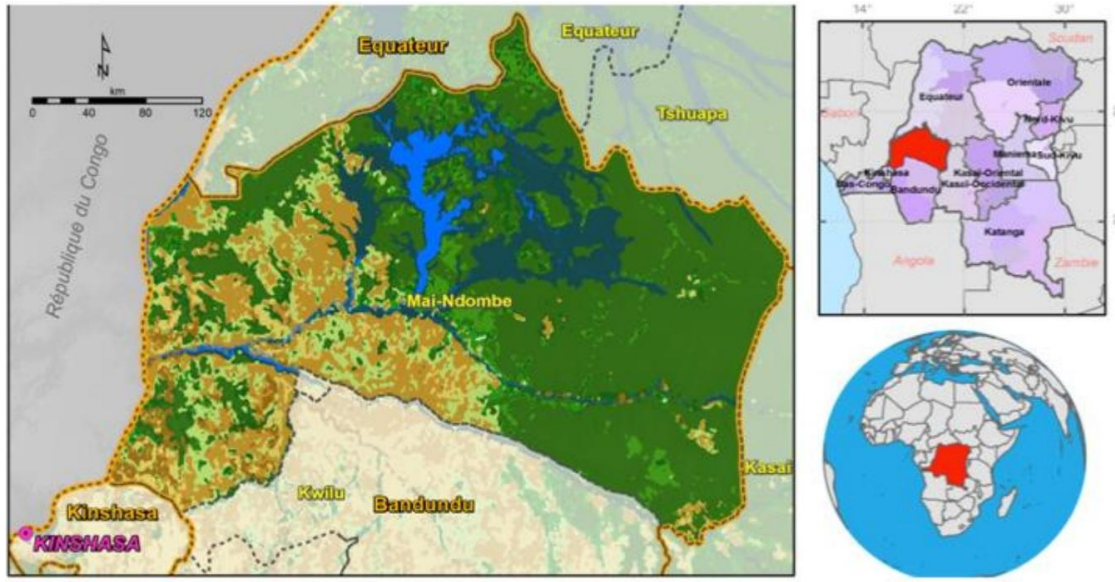
FOREST CARBON PARTNERSHIP FACILITY

DRC

Republic of Congo / World Bank

Background

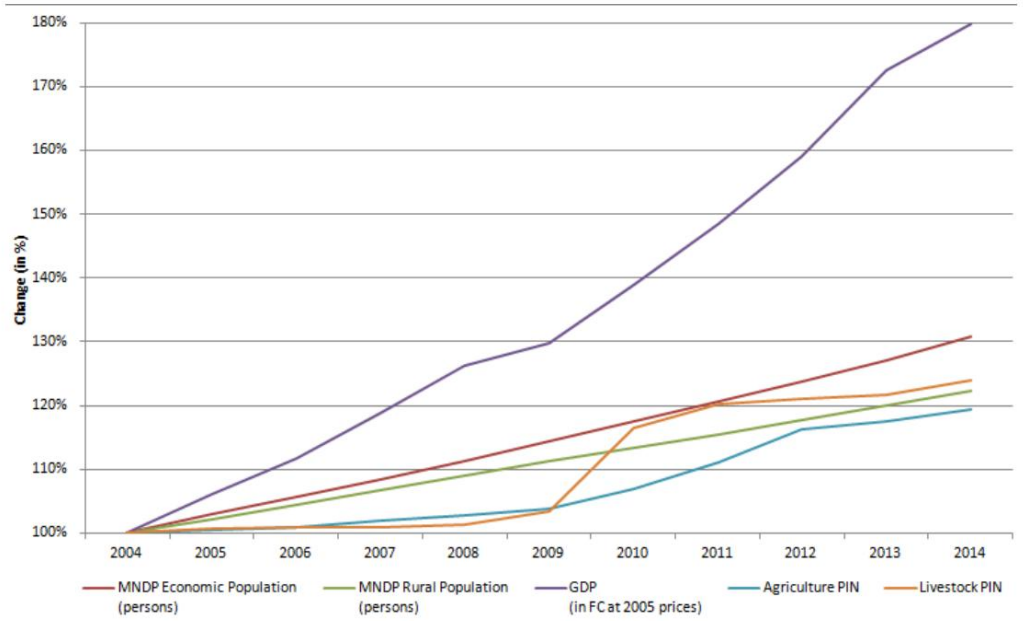
- Government of DRC has recently generated 3,895,802 ERs from its Mai Ndombe ER Program
- These are the first jurisdictional-scale carbon credits issued by a Congo Basin country
- The program will shortly generate 1.6 million ERs of excess carbon credits.
- DRC has an ambitious agenda on carbon markets, and would like to sell these credits
- DRC has been in discussions with Emergent to transact these carbon credits
- Emergent has expressed that their buyers would not be interested in HFLD units
- Part of Mai Ndombe's carbon credits are not HFLD
- DRC has asked the FCPF to allow the HFLD labelling and to receive credits that are not labelled



National circumstances

MINISTÈRE DE L'ENVIRONNEMENT ET DÉVELOPPEMENT DURABLE

- In 2015 DRC's forests covered an estimated 67% of the national territory
- The reference period covers a post conflict phase.
- Consequently, all driver related parameters are generally increasing, with demography and economic development being the most significant.
- 3% pop growth ~ 6,500 new households/yr ~ 32.5k ha of shifting cultivation expansion/yr
- Mai Ndombe represents one of the frontiers of deforestation, being one of Kinshasa's supply basin



Evolution of GDP, population and agricultural parameters over the reference period

DRC upward adjustment

- In 2018 DRC submitted its reference level to the UNFCCC with a reference period 2000-2014.
- Annual emissions increased from 483.74 million tCO2e in 2000-2010 to 830.53 million tCO2e in 2010-2014.
- Based on this, DRC proposed a linear trend for its FREL for the period 2015-2019.
- The same trend has been observed for the province of Mai-Ndombe.

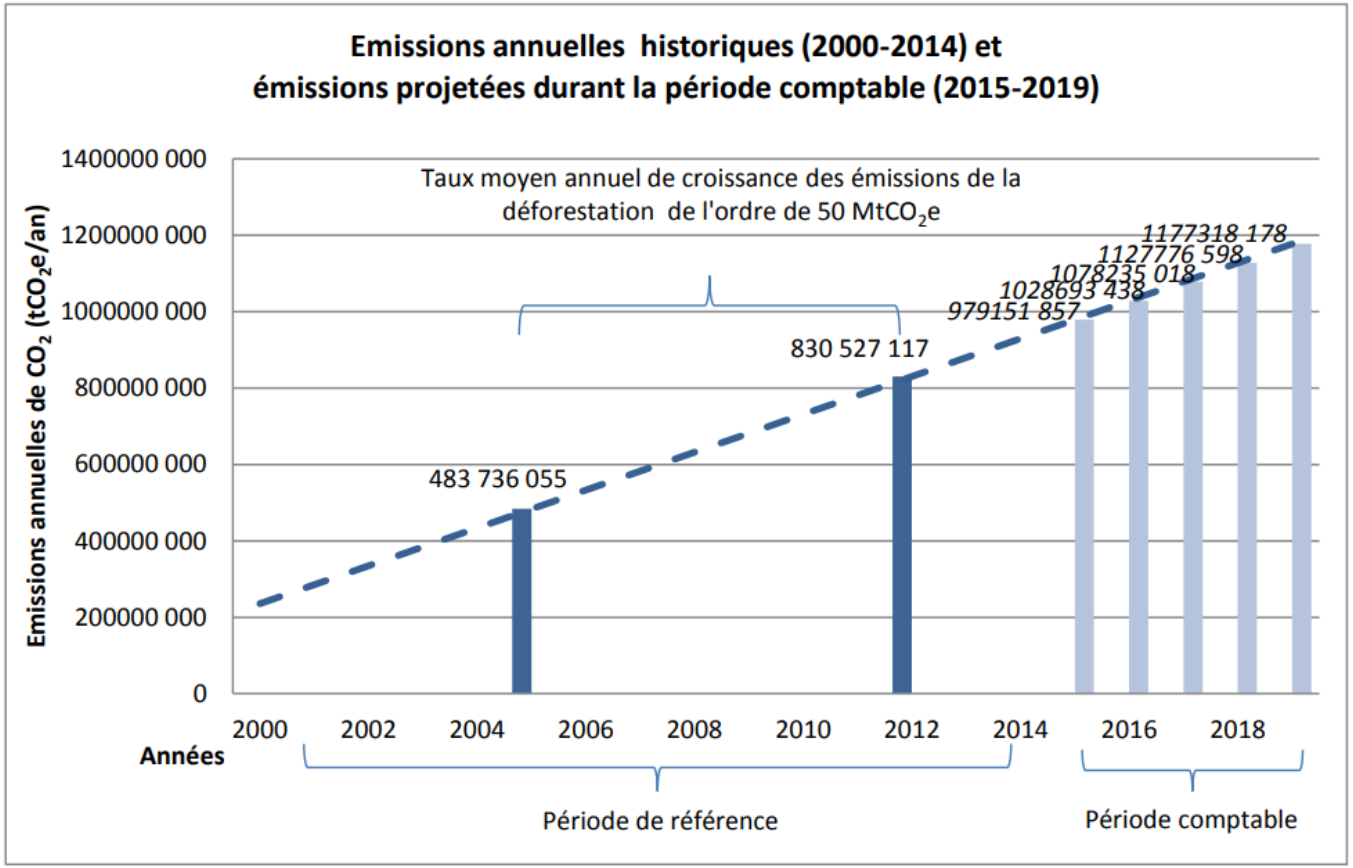
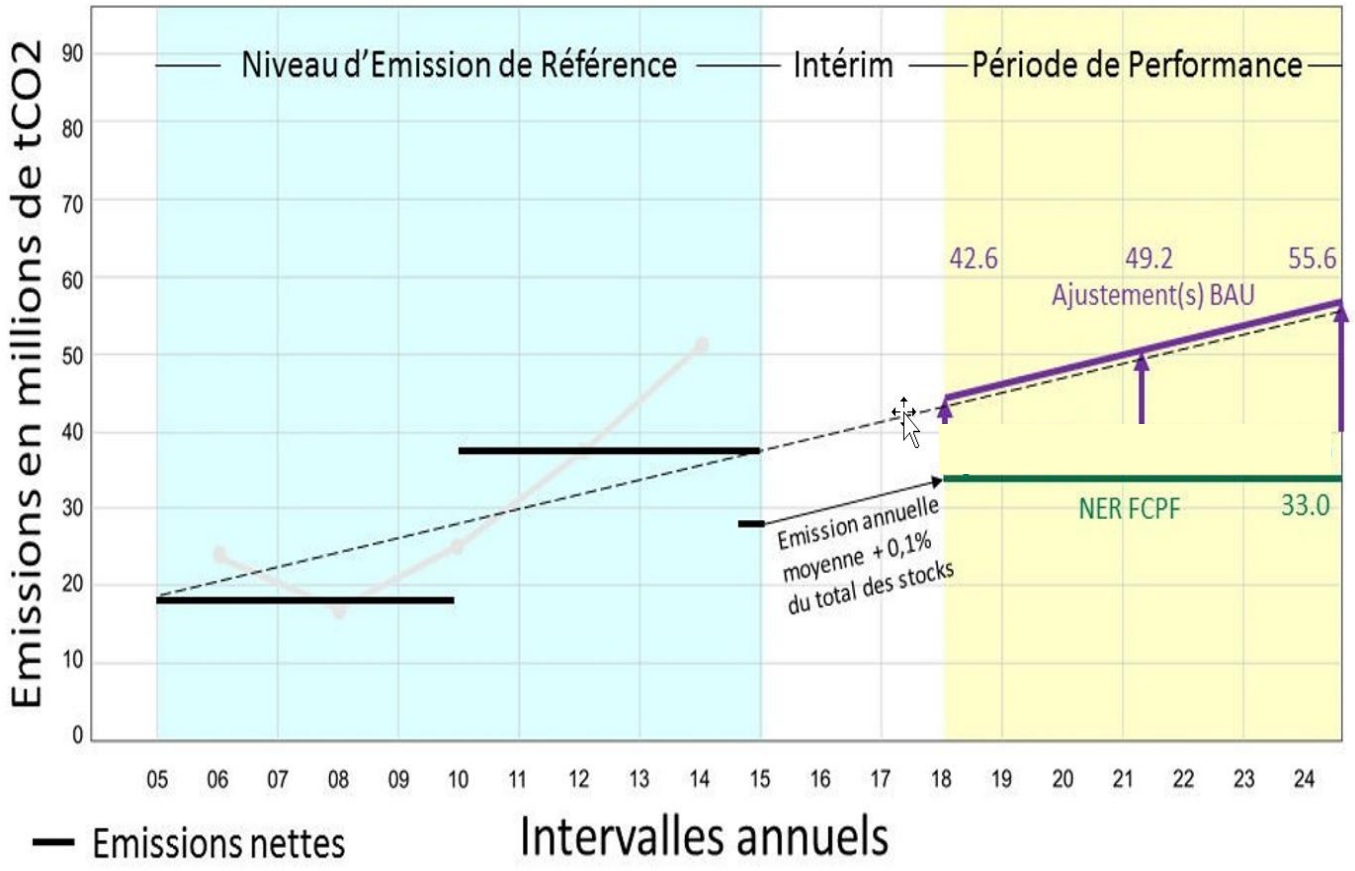


Figure 9-3 : Extrapolation du NERF.

DRC upward adjustment

- Trends in Mai Ndombe showed a significant increase in emissions from 20 million tCO2 in 2005-2010 to 39 million tCO2 in 2010-2015.
- Emissions in 2014-2015 were close to 50 million tCO2, that compared with 27 million tCO2 in the historical average, showed difficulty for DRC to reduce emissions
- A conservative trend would put emissions in 55.6 million tCO2 by 2025
- However, DRC decided for a conservative adjustment of 5.7 million tCO2 over historical average for the ERP
- Reference level of 33 million tCO2 is considered conservative



DRC's position

- DRC's position is that HFLD credits are of the same quality as non-HFLD credits
- HFLD credits should be considered of higher quality if other benefits are considered (biodiversity, water, IPs,…)
- Unfortunately, buyers have impression that HFLD credits are of lower quality and are afraid of criticism
- HFLD labelling could cause impacts, but would be positive for DRC as it would give it more possibilities to monetize
- DRC is calling for partners to support forest countries to show markets that HFLD credits are of the same or greater quality

Any questions?

@Brandy Calderon / Dominican Republic / UnSplash

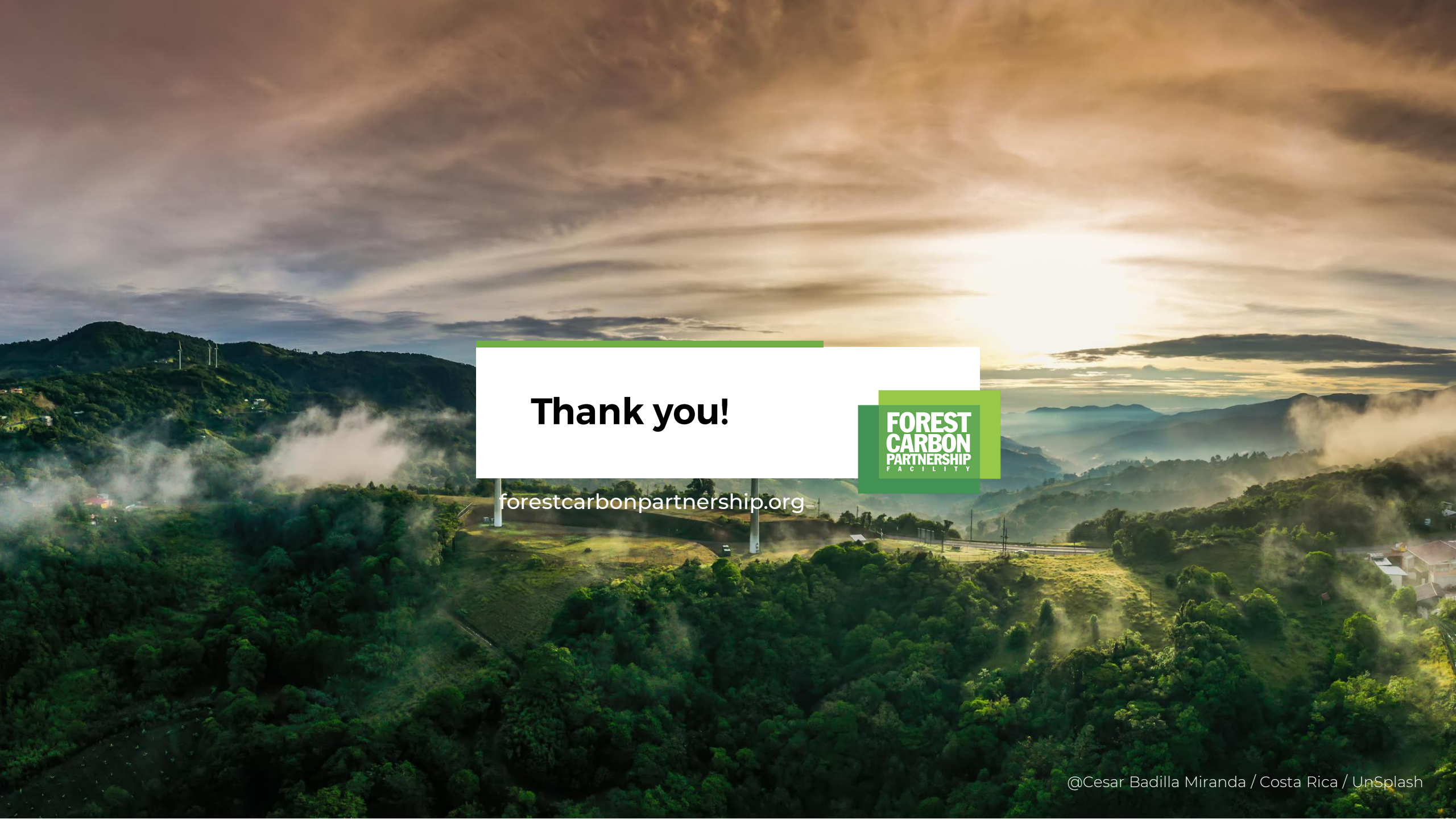
Proposed next steps and discussion

Proposed next steps:

- In coordination with Emergent and with other WB colleagues, socialize with potential buyers the integrity of 'HFLD' units under the FCPF.
- Label HFLD units for the DRC case if interested buyers set as a condition that units are not HFLD
- Support an informed dialogue regarding the use of 'HFLD credits' in carbon markets and potential improvements to methodologies through different WB engagements (e.g. Singapore´s roundtable, WB initiatives,…)

Discussion

- Seeking valuable feedback from CFPs and observers



Thank you!

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