9 October 2015

Dear Carbon Fund Participants,

The Wildlife Conservation Society (WCS) is pleased to submit our comments on the Emissions Reduction Program Idea Note (ER-PIN) document submitted by the Government of Madagascar to the FCPF on 21 September 2015. As the delegated manager of the Makira Natural Park, which houses the Makira REDD+ Carbon Project, WCS is a long-term partner of the Government of Madagascar in carbon finance activities both through the collaborative development of the Makira project, as well as through a comprehensive program of technical assistance. To this end, we would like start by congratulating the Government of Madagascar for the initiative to prepare an ER-PIN and for the development of a thorough and clearly written document. We have structured our comments on the document into a series of general comments and a series of more detailed technical comments.

General comments:

1. Integration with existing REDD+ projects, notably the Makira REDD+ Carbon Project – As recognised in the ER-PIN, one of the key strengths of REDD+ activities in Madagascar is the presence of a number of existing pilot projects, including the Makira project, which have built up a wealth of experience on the practicalities of operating carbon finance projects at a large scale.

   Makira is a fully functioning project that has regularly been selling VERs on the voluntary market. It has an established and widely accepted benefit-sharing mechanism which distributes 50% of net revenues for community development activities directly impacting on the Makira REDD+ Project and 20% of net revenues to Park management. The benefits of the structure of the current project for emissions reductions and social and biodiversity indicators are clear, as evidenced by the recent verification of 2010 – 2013 ERs to both VCS and CCBA standards. Furthermore, WCS as the Park manager in collaboration with the Government has invested significant resources and time in the development of the project, and the facilitation of its acceptance by local populations around the Park (who are the key drivers of deforestation) and local authorities.

   The ER-PIN states that lessons from the trial benefit-share system applied in Makira and elsewhere have been fully applied in developing the system proposed in the ER-PIN concept. However, the document proposes a significantly different approach to revenue sharing which to date is untested in Madagascar. We are concerned that a change to the existing revenue sharing mechanism for Makira following the application of this alternative approach as part of an ecoregional approach risks damaging the relationships and trust built to date with local populations who would have a less direct pathway for the receipt of net revenues. This could have significant implications for deforestation results and thus the volume of ERs generated. It also risks reducing the share of net revenues available for the management of Makira, which is the largest terrestrial protected area in Madagascar, and for which significant financing gaps exist.

   Furthermore, we question whether communes (as the principal administrative unit) will be willing to target the 50% of the funds that they control towards forest-user communities and with a degree of conditionality that will drive sustained emission reductions? There seems a risk that they will choose to spend the money in other ways - for example pursuing more generalized rural development goals - unless the criteria for these payments are clearly defined. This concern is amplified by our experience of the complexities of ensuring good and transparent governance at the commune level in Madagascar.

The ER-PIN indicates that all Makira credits will be offered to the ER program because of 'difficulties' in selling them any other way. This statement underestimates the successes that Makira has had in selling credits on the voluntary market. Makira ERs were first sold on the voluntary market in late 2013 and in the intervening 2 years they have developed a reputation as 'premium' ERs with a high degree of social and ecological co-benefits. This assumption is also contrary to discussions that were held during the ER-PIN preparation whereby the need for further evaluation of the (financial, social, biodiversity and equity) effects of including Makira in the ecoregional program needed to be analysed in more detail before taking a final decision on the inclusion of all Makira credits.

Finally, we respectfully yet strongly disagree with the implication in the ER-PIN that the only element of the Makira project that has worked effectively has been the MRV. We would be very happy to provide additional information on the successes of the Makira project both in terms of sales, as well as in term of deforestation and community development indicators.

2. Geographical scope – The ER-PIN includes a sensible intent to build on the successes of the numerous pilot REDD+ projects in Madagascar. Makira alone is verified as delivering a high proportion of the proposed ERs from intact forest in the whole start-up area (Table 14 - admittedly the baseline and other details for those verified ERs differ somewhat from the jurisdictional one which may result in fewer ERs generated by Makira because of different methodological approaches). However the program is not clearly structured to allow that, particularly because of the identified geographical boundaries for the start-up area that effectively slice Makira in half.

   P.40, figure 7 states '*…projects extract their REL/RL from ecoregional REL/RL…*' and text says '*It is obvious that the ecoregional approach in the implementation of the emission reduction program allows to make the link between existing projects' approach (3 REDD + projects within the area of application); to collect results at local level and feed implementation and accounting at the national level.*' But this will not be possible unless the startup area boundary is adjusted to either fully include or fully exclude the Makira project.

3. Watershed-based approach – We understand the biophysical and agroecological system-based justification for the adoption of watershed-based approach but we question whether it is a practical or viable option in the Malagasy context given that it cuts across administrative boundaries. Existing government boundaries will determine the units across which many of the activities will, in practice, get rolled out. We are concerned that the adoption of a watershed approach risks adding an extra layer of complexity and further transactional/coordination costs to an already over-stretched governance framework.

4. Selection of communes as the principal administrative unit – Decentralisation attempts in Madagascar have had a long and convoluted history and we question whether the current level of capacity, resources and political influence of communes is adequate to allow them to fully play the role that is assigned to them in the ER-PIN without significant complementary capacity building and institutional strengthening efforts.

5. Consultation with partners: We are aware of the tight deadlines that the Government had to prepare the ER-PIN document. However, we would ideally like to have seen a higher degree of consultation take place with WCS and other partners during the ER-PIN preparation. We believe

that many of the issues that we raise in this submission – particularly in relation to the integration of Makira into the ecoregional program - could have been addressed through such a process. We welcome involvement in future discussions on the concept should the ER-PIN be validated and the preparation of an ERPD commence.

6. Drivers of deforestation and forest governance: As a final general comment we would like to echo the comments raised in other submissions to the ER-PIN that recommend that the ERPD contain a more comprehensive analyses of the drivers of deforestation and a more robust explanation of the means in which the program would address weak governance structures in the forestry sector in Madagascar.

Specific comments:

7. P19-21 Activities for tavy and fuelwood only highlight options for intensified production, with the assumption that this will relieve pressure on forests. It may just as easily increase pressure on forests as has been demonstrated previously on the east coast of Madagascar (e.g. through higher land prices, lower commodity prices promoting higher demand, and increased capital and cash flow available to farmers to finance clearance and employment of farm labour). It seems essential that agricultural intensification should be combined with enhanced active forest protection measures, in and outside protected areas, to avoid a perverse outcome that will reduce ER levels.

8. P19 Will the promotion of irrigated rice farming take account of the potential for increased methane emissions from this farming system?

9. P19 Will wood energy demand-reduction approaches such as improved cookstoves be used, and will this be done in demand centres beyond the jurisdictional boundary? Improved cookstoves are mentioned in the Annexes but not in the main text.

10. P19-21 Planned activities do not explicitly mention the improved management of protected areas, though this is mentioned later, in Section 8 and in the Annexes. Protected Area management could contribute to addressing several of the drivers in priority (carbon-rich) locations and with significant co-benefits. PA management often already takes an integrated landscape approach, engaging communities in buffer zones on a wide range of activities as proposed here, so are a good fit. They are also centres of existing expertise and ongoing activities and it would seem sensible to 'build out' from them where possible.

11. P29 In the timetable only one issuance of credits is shown, at the end of the four years of implementation. Might it be better to do this every 2 years, to provide cash flow for re-investment? Indeed, this seems to be what is planned in Table 6.

12. P29 Continued revenue from the Makira Carbon Project is included in the projections, but seems under-estimated at only $0.4 m/year, though it may also be at risk of falling to zero because there is no clear mechanism set up to enable it to be nested into a jurisdictional framework.

13. P32 'The proposal of Madagascar focuses largely on increasing carbon stocks in degraded humid forests that will be managed to let stocks recover naturally within specifically selected areas.' This statement seems a little misleading as the text soon clarifies that there is also a focus on avoiding deforestation. The headline statement should capture avoided deforestation as well as restoration.

14. P44 The anticipated gains in stock on 15% of the degraded forest may be offset by increased rates of degradation on the other 85% of that forest type if activities such as logging and fuelwood

harvest are displaced. The document does not contain enough information to judge whether this displacement will be prevented.

15. P51 The benefit-share system may not need to allow for marketing costs (100% of ERs will be offered to the Carbon Fund) and may allow too much for third party verification (% should be lower for such a large volume and it is not entirely clear that 3rd party verification will even be needed). There are several other costs relating to coordination and so on in this scheme that are more like fixed costs and so do not need to be expressed as percentages, since these can become unnecessarily large at high sales volumes (eg for a $50 m transaction there is $2.5m over 10 years for BNCR). This would free up more money for field activities and community benefits.

16. While service providers are mentioned in the text it is not clear where they appear in the diagram – are they simply subgrantees of the ‘state’ portion? The ‘commune’ part is apparently intended to be spent on whatever the local populations desire, with no direct link to emission reductions. Is the state’s 20% therefore the only part of the total that will be spent directly on emission reduction activities? If so it may not be enough compared to the ambition of what is described, especially as parts of that appear to be earmarked for further coordination activities. We suggest a closer analysis of the actual costs of implementing key activities based on experience with existing carbon finance projects (e.g. protected area management, support to community forests, agricultural extension etc.) and a comparison to the expected levels of revenue that will be available in the context of this benefit-share structure.

17. P54 The following statement is inaccurate: ‘Existing REDD+ projects are all designed on the principle of avoided deforestation in newly created protected areas. They incur no development costs to generate the ER, and the reason for engaging in REDD+ projects was, at least in part, to generate sustainable funding for the management of protected areas’. ERs do not stem solely from a legal decision to create a PA and significant funds have to be spent on establishment, management, and community engagement in order to remove the threats that cause the emissions and thus generate ERs.

In conclusion, we would like to reiterate our congratulations to the Government of Madagascar for the ER-PIN concept that has the potential to create a significant and sustainable source of financing for natural resources management and socio-economic development in Madagascar. We look forward to providing additional information on the experiences with the Makira REDD+ project and further consultation as part of the development of the ERPD should the ER-PIN be validated by the FCPF.

Yours sincerely,

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