Potential of VCMs as an approach to forest conservation in Melanesia

Lessons from the Climate Resilient by Nature workshop
27 September 2024

Australian Government

Climate Resilient by Nature

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Contents

Acknowledgements:

This brief has been funded by Climate Resilient by Nature, an Australian Government initiative, through the Department of Foreign Affairs and Trade, in partnership with WWF Australia. WWF Australia would like to thank all learning event participants, and particularly representatives from the Papua New Guinea Climate Change and Development Authority, FORCERT and the Nakau Programme for their generous contributions of time and expertise. The views expressed in this publication are the authors' alone and are not necessarily the views of the Australian Government or WWF Australia.

Reference:

Lanyon K and Allen M (2024) *Potential of VCMs as an approach to forest conservation in Melanesia: Lessons learned from the Climate Resilience by Nature Workshop 27 September 2024*, report to WWF Australia, Sustineo.

Cover photo:

Aerial view of traditionally-built and thatched houses in Pomio District, East New Britain Province, Papua New Guinea. © WWF-Pacific / Tom Vierus.

Background

Under the Climate Resilient by Nature (CRxN) initiative, WWF-Australia has designed a learning program to explore the question:

How can carbon market projects be developed that deliver benefits for Pacific communities?

Given the growing interest in voluntary carbon market (VCM) projects emerging in the region, and criticism of the validity of claims made by commercial project developers, this learning program explores key questions around what makes high integrity carbon projects in the Pacific.

This brief summarises insights from the third workshop in the CRxN series, held on 27 September 2024. Building on the first two workshops, which focused on supply and demand factors in high-integrity carbon markets, this session examined the potential of VCMs as a novel approach to forest conservation in Melanesia. It drew strongly on the findings from the concurrent research study *Assessing the potential of voluntary carbon markets as a novel approach to forest conservation in the Melanesian Pacific*, which is supported by WWF Australia and implemented by Sustineo.

KEY LEARNINGS

1. Carbon regulation needs to make space for small-scale projects, perhaps by having differentiated requirements for projects of different scales.
2. Community ownership needs to be a priority, including participatory methods for benefit-sharing and empowering communities through tailored capacity-building.
3. Benefits should be delivered in ways that maximise community agency while minimising social risks.
4. Financing small-scale VCM projects should not come at the expense of social and environmental outcomes.

The workshop included the perspectives of four organisations, representatives of which participated as panellists in the workshop discussions:

- **PNG Climate Change and Development Authority (CCDA)** - PNG Government body responsible for coordination of all climate change related policies and actions across the country. CCDA is the lead agency for engaging with carbon markets in PNG.
- **The Nakau Programme** - grows ethical and sustainable ecosystem carbon projects that are led by Indigenous landowners and communities across the Pacific Islands, driven by a vision for healthy nature and strong communities.
- **FORCERT** - not for profit working in PNG empowering communities to take control of their resources and to manage them in a sustainable way.
- **Sustineo** - a social research and evaluation firm that has been conducting research on VCMs in the Pacific for several years.

These panellists each have a strong interest in the development of high-integrity VCM projects in PNG and Solomon Islands. Building on a presentation from Sustineo, which established the potential of VCMs to bring environmental and social benefits through forest conservation, the workshop discussion focused on the practicalities of supporting high-integrity VCM projects in PNG and Solomon Islands.

VCMs for forest conservation

The conservation of natural forests is a critical priority in PNG and Solomon Islands, where unsustainable commercial logging has been ongoing for more than 40 years. Alongside environmental damage, logging also brings severe social impacts, particularly at the community level. Sustineo presented findings from their recent study, emphasising that in addition to environmental benefits, forest conservation also mitigates the social harms of logging. However, sustainable finance for conservation remains a persistent challenge.

VCMs present an opportunity to address this financing gap, potentially enabling conservation efforts that provide ongoing benefits for both communities and nature. Yet, the first wave of forest carbon projects in PNG – predominantly large REDD+ projects – have faced significant criticism centred on issues with community engagement, benefit-sharing arrangements, and permanence obligations. The experience with REDD+ in PNG demonstrates that if implemented poorly, VCM projects can cause similar negative social impacts to those of commercial logging.

Recent years have seen the emergence of smaller scale VCM projects the Pacific, such as those led by Nakau and FORCERT, which are demonstrating greater success. Drawing on four forest conservation case studies (including Nakau and FORCERT projects), Sustineo shared four ‘ingredients for success’ in high-integrity VCM projects:

1. **Working at an appropriate and pragmatic scale** increases the likelihood of VCM project success. Smaller projects can engage more effectively with communities, while larger projects often face greater social challenges and require stronger regulatory support. Starting at the right scale allows projects to build a solid foundation and expand gradually over time.
2. **Using the right tools and processes for each community and working with existing governance structures** allows projects to be implemented in a way that suits the specific needs, governance structures, and conservation interests of resource-owning communities.
3. **Supporting transparent information and participatory processes for benefit-sharing that encourage the prioritisation of non-cash benefits** helps manage community expectations, reduce social risks associated with cash benefits, and ensure that the distribution of benefits from VCM projects aligns with community priorities, promoting long-term support and fair outcomes.
4. **Empowering local communities while engaging external support as needed** helps ensure the long-term success of VCM projects. It builds local capacity for governance and project management, while external partners can provide financial and organisational support where needed, creating sustainable and accountable project ownership.

What is needed for high-integrity VCM projects?

Following the presentation of findings from Sustineo's study, the panel discussion focused on practical application of these 'ingredients for success' in PNG and Solomon Islands,[1] and how to create an enabling environment which supports high-integrity VCM projects.[i] The discussion was underpinned by the view that high-integrity VCMs in the Pacific need to place the wellbeing on Pacific communities at the centre.

> We're talking about developing voluntary carbon market projects. [But] for whom? If we are going to use the Pacific for cheap credits to allow business as usual to continue, we're not doing either our communities or the world any service. – FORCERT

The issue of scale

One characteristic of the newer, high-integrity VCM projects is their smaller scale (see Figure 1). The panellists agreed that small projects are often more socially successful, as the scale facilitates effective community engagement. It is therefore important that VCM regulations and policies allow space for these small scale projects to be viable.

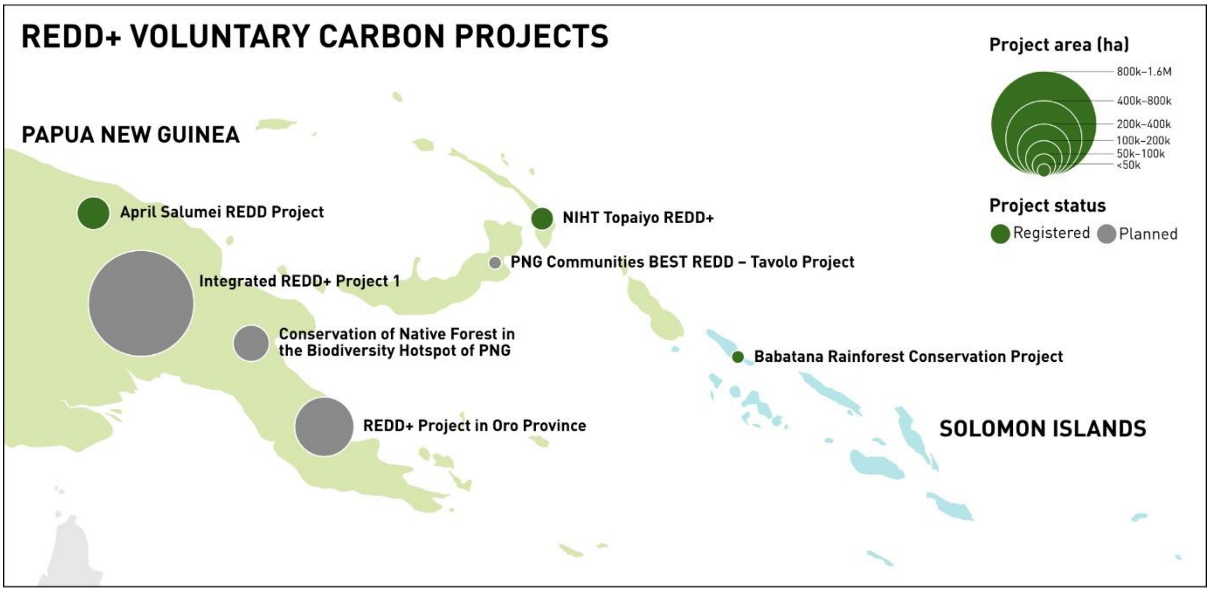

Figure 1: Map showing relative scale of planned and registered VCM projects in Solomon Islands and PNG. The Babatana Rainforest Conservation Project (Solomon Islands) and PNG Communities BEST REDD – Tavolo Project (PNG) are the two high-integrity VCM project case studies included in Sustineo's study. *Note: Project sizes are not to scale with the background map.*

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[1] The discussion focused on PNG due to its more developed regulatory framework for carbon markets, and as a reflection of the panel composition.

PNG’s new carbon trading regulation[2] appears to be largely targeted towards large-scale, national-level REDD+ projects, without distinguishing between project sizes. As CCDA explained: “the rules that we currently have, they don’t categorise the project, it’s just one process for different levels or types of activities at the moment.”

This lack of differentiation can create challenges for small-scale carbon projects. Processes like boundary and beneficiary demarcation create high overhead costs that are difficult for smaller projects to absorb. FORCERT elaborated:

> In [PNG], when the REDD+ safeguards were developed, a lot of thought was given in to how to avoid bad practice, and I don’t think there was a lot of thought about how these requirements might be… a bit too hard for smaller projects.

CCDA acknowledged these concerns, noting that while smaller projects can be more socially successful, they can be just as expensive as larger projects in meeting government requirements.

Both Nakau and FORCERT advocated for regulations that distinguish between large and small projects. Some carbon standards now define ‘macro’ and ‘micro’ projects based on their emission reduction potential (which is linked to project scale). For example, Plan Vivo classifies projects producing fewer than 10,000 carbon credits as ‘micro’ projects and applies less stringent requirements for validation and verification. This approach makes small projects more workable and reduces overhead costs, enabling more benefits to flow back to communities. This approach is also replicated in other systems, including the Forest Stewardship Council National Standards for PNG, which has different requirements for large and small operations.

Outside of regulatory changes, enabling environments for small projects can also be supported by project developers investing time and energy into building strong relationships with government. By fostering trust and collaboration, project developers can improve mutual understanding of regulatory processes and potentially streamline them:

> If you have invested time and consideration into building a strong relationship with government, you are able to understand the regulation, and perhaps create a capacity there to build… a better understanding of the process or a more efficient process. – Nakau

In doing so, developers of smaller projects can reduce the administrative and regulatory burden, helping to make such projects more viable.

[2] The *Climate Change (Management) Carbon Markets Regulation* is currently in the final stages of validation and is expected to be enacted this year

Selecting and working with communities

Selection of communities to work with is an important step in implementing high-integrity VCM projects. Project developers often use structured tools to aid this process, such as Nakau's 'site selection toolkit' and FORCERT's 'community selection matrix'. Communities with a demonstrated commitment to conservation are sometimes preferred, as this has been shown to support project success. However, there are also complexities in engaging these communities for carbon projects. While conservation-minded communities may initially seem ideal, their existing conservation activities can raise challenges for meeting additionality requirements – a key requirement for carbon standards.

Rather than focusing solely on selecting the "right" community, Nakau emphasised the importance of employing the "right tools and processes." Building a strong, trusting relationship between the project developer and the community is the foundation of a successful VCM project. From this foundation, developers can use appropriate tools to assess eligibility and feasibility of a carbon project, and appropriate processes for communicating this with the community and seeking clarification from carbon standards where needed. By focusing on process rather than predefined characteristics, developers can better provide for the needs of the community. As Nakau explained:

> It's actually about serving that community…. Providing the right information and doing them the justice to make sure that you are working on their behalf to make sure that there's the best possible outcome. – Nakau

Both Nakau and FORCERT acknowledged that for some communities, VCMs may not be the right model for conservation. For example, communities that have already conserved their forests may be unable to meet additionality requirements. This can create inequities, as only certain communities can access the financial benefits of carbon markets, and those who have prioritised conservation may be disadvantaged. FORCERT advocated for exploring alternative non-market financing mechanisms to support conservation in communities that do not qualify for VCM projects, ensuring broader equity in conservation funding.

Delivering benefits to communities

Early REDD+ projects demonstrated that poorly managed income from carbon projects can lead to similar social challenges as those caused by logging. This highlights the importance of careful planning to ensure that benefits are delivered in a fair and sustainable way.

Understanding community expectations

In PNG, many communities have limited understanding of how carbon markets work, but have heard that carbon projects bring money. Information from online sources, news stories, or other project developers can create unrealistic expectations.

> In many cases, with the best will in the world and the best approaches we have, still the story about carbon has gone on well ahead of us, and we're walking into

> a context that's not a neutral environment. And I think we need to acknowledge that as we approach communities and start to try to have conversations with them about carbon. – Nakau

This means that project developers must, from the outset, provide clear and accurate information to communities to help manage expectations.

Fostering genuine community ownership

As discussed in the first workshop, it is essential for communities to have real ownership in VCM projects, including in relation to benefit-sharing arrangements. Fostering genuine community ownership of benefits begins by supporting communities to determine what kinds of benefits will suit them best by reflecting on their needs and previous experiences. Project developers can then work with the community to develop a benefit-sharing plan or agreement which formalises arrangements for how benefits from the project will be shared. In FORCERT's Tavolo Project, for instance, the community decided to split benefits into 7 'baskets' for different purposes. To ensure communities are delivered the agreed benefits, benefit-sharing plans should be formalised prior to verification of carbon projects. Only some carbon standards require this, but Nakau suggested that national carbon regulations should have the same condition.

Community ownership can also be supported through using existing community structures for decision-making and governance. Nakau emphasised that indigenous governance models in the Pacific are typically sufficient to meet the requirements of carbon standards, but the carbon market does not always recognise these systems, creating a gap that project developers must bridge. Nakau's view is that it is the responsibility of the project developer – not the community – to communicate the sufficiency of indigenous governance models to carbon standards. This process must be participatory and culturally safe, ensuring that communities have a voice in how their governance practices are represented without feeling subjected to external cultural pressures.

FORCERT agreed that where traditional systems remain intact, these should be prioritised as the foundation for project governance. However, they also highlighted that it is important to consider how external influences, such as logging or other extractive industries, may have disrupted traditional governance structures. FORCERT noted that harmful changes, such as elite capture, can undermine fair decision-making. FORCERT's approach involves creating space for diverse groups within the community, such as youth and women, to hold discussions before bringing everyone together in a manner consistent with traditional practices. This ensures inclusivity while respecting the community's established governance norms.

De-risking delivery of benefits

Broadly speaking, there is a preference from high-integrity project developers to deliver non-cash benefits to avoid the problems associated with large cash payments in logging projects. When the delivery of these non-cash benefits is determined in accordance with community participation and a benefit-sharing plan, this can help to reduce risk of replicating issues seen in the first wave VCM of projects. There have, however, been some issues in other projects where large commercial developers have made vague, unclear promises to provide ‘non-cash benefits’, which are often not delivered and are not informed by community needs and preferences. PNG’s national guidelines for benefit-sharing and distribution under REDD+ projects provide a good framework, but FORCERT notes that they still leave loopholes to allow these kinds of problematic ‘non-cash’ arrangements.

Furthermore, part of allowing genuine community ownership is dealing with the reality that some communities will still want cash payments, particularly in cases where landowners have previously had access to cash payments from mining or logging. The task for project developers, then, is to support the community’s agency in determining how benefits are paid and shared, whilst reducing risks of social harms. The approach that Nakau takes is to pay cash benefits to a community-owned organisation who are responsible for allocating the funds in accordance with the benefit-sharing agreement. For example, if the community has identified that payments for school fees are a priority need, the community-owned organisation can pay school fees directly using income from carbon credits. In this model, the community-owned organisation is kept accountable to the community through annual general meetings. Throughout, the community retains legal ownership of the carbon credits and the income:

> Nakau is very clear that that is not Nakau money. That’s money that’s owned by the carbon rights holders that they’re spending on things like school fees. – Nakau

Nakau noted that provision of this type of cash benefit is much easier to manage in small projects, as it is easier to monitor the transfer of money, there is less money overall, and it is easier for the community to work together to decide how they would like to use it.

Beyond direct income, carbon credit revenue can also support broader livelihood development. In the case of FORCERT’s Tavolo Project, the community decided that for the first five years, they want a small cash benefit going directly to communities to support their immediate needs, but are also looking at how families and clans can develop small businesses and other income-generating options. This approach ensures that income from carbon credits can be used to generate long-lasting livelihood benefits, even beyond the lifespan of the project.

Capacity building and needs

Building capacity at both the community and government levels is essential for the success and sustainability of high-integrity VCM projects in the Pacific. Effective capacity building empowers communities to govern their projects while ensuring governments can provide the necessary oversight and enforcement.

Community level

Part of enabling community ownership of VCM projects is building capacity of communities with relevant skills and knowledge. This is an ongoing process, that takes time and is best placed in the context of a long-standing relationship. FORCERT shared their experience of community capacity building for the Tavolo Project, which included supporting the community in establishing the Tavolo Community Conservation Association, a legal entity that represents the community in project governance. To strengthen this entity, the community engaged a consultant to build financial systems and train staff.

Responsibilities are being transferred to the Association incrementally to avoid overburdening community members. For example, while FORCERT currently manages the allocation of education subsidies, this task will eventually transition to the Association as it becomes ready. FORCERT suggested that integrating community capacity building into carbon regulations should be considered.

Government level

Pacific governments face significant capacity challenges in engaging with global carbon markets. Sustineo noted that Pacific governments, including PNG, are interested in engaging in both compliance and voluntary carbon markets, but ongoing negotiations about global carbon frameworks[3] are creating uncertainty. To engage effectively in compliance markets, governments would need national carbon accounting systems, and a framework for nesting – both of which are complex and require a high level of government capacity.

In PNG, the government's capacity to implement and enforce the new carbon market regulations remains a concern. Sustineo drew parallels with challenges faced in regulating extractive industries like mining, raising concerns that similar issues could undermine the integrity of carbon projects.

The greatest capacity gaps were identified at the sub-national level, where many projects are implemented. Sub-national governments often lack the technical knowledge and resources to oversee VCM projects. As acknowledged by CCDA:

> There… [are many] capacity gaps for government but especially in the subnational levels where are projects are happening. Technical and knowledge gaps but also policy and regulation. Knowledge gaps around global carbon markets and transactions."

This is particularly challenging because although capacity is growing more slowly at the subnational level than the national level, communities often feel stronger relationships with subnational governments. According to Nakau, this forms a "disconnect" between where the relationship sits and where the capacity and technical knowledge sits. Strengthening capacity at all levels of government will be needed if these regulations are to be successfully implemented.

Financing

High-integrity VCM projects often face significant costs, particularly during setup and implementation. Despite these challenges, Nakau and FORCERT emphasised the

[3] Specifically, Article 6 of the Paris Agreement

importance of prioritising social and environmental outcomes when accessing financing. Ensuring that funding sources align with these principles is critical to high-integrity VCMs.

Nakau prioritises grant funding over private sector investment to cover the substantial costs of project setup. Grants often include requirements that encourage higher standards of community development and protection of human rights, which private investors may be less inclined to support. This funding approach enables Nakau to pursue projects that deliver meaningful benefits across climate, community, and conservation outcomes, even if these projects are less commercially attractive. Additionally, grant funding provides the flexibility to explore innovative conservation initiatives, such as managing invasive species to protect forests. By relying on grants, Nakau ensures a focus on long-term sustainability rather than short-term financial returns, maintaining the integrity of its projects.

FORCERT emphasised the ethical considerations of financing, particularly in the sale of carbon credits. As noted in the first workshop, there have been issues with organisations purchasing carbon credits as a form of greenwashing, and project developers have role in preventing this. FORCERT has a carbon credit sales policy, ensuring that credits are only sold to committed buyers who are willing to be very transparent about pricing and in reporting on their own environmental commitments and performance. This approach is underpinned by FORCERT's belief that VCMs should not just be a mechanism to allow business as usual to continue.

> The big danger… for REDD+ is that it is being misused for offsets and continuation of business as usual, and our Pacific communities will be worse off – FORCERT

Topics for further exploration

- **Financing conservation for communities that can't engage with VCMs.** As raised in the workshop, some communities will not be deemed eligible or feasible for VCM projects. This can create inequities and may pose threats to the conservation of those forests. Exploring alternative financing mechanisms to support conservation efforts in these contexts is critical (and ensuring that the same social safeguarding principles of high-integrity VCM projects are applied).
- **Models for carbon regulations to differentiate between projects of different scales.** The discussion revealed that a key opportunity in developing and implementing new carbon regulations is to have differentiated requirements for projects of different scales, to ensure that positive community outcomes are promoted at all scales. Examining how different carbon standards make these differentiations, and considering what models are most suitable in different Pacific contexts, can inform better regulatory frameworks.
- **Pathways for sharing and learning between different Pacific countries.** As demonstrated through this workshop, there are many lessons emerging from PNG's experience of developing and implementing carbon trading regulations. This presents a strong opportunity for other countries – particularly those like Solomon Islands who are very early in the process of developing carbon regulation – to learn from this experience. It's important to consider the best ways for these lessons to be shared between governments.

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[i] The discussion was directed using the following questions (which were pre-circulated to the panellists for their consideration):

- How can enabling environments be supported that allow development of small-scale VCM projects?
- What steps can be taken to ensure the 'right' communities are engaged for VCM projects?
- How can projects be designed to emphasis non-cash and livelihood benefits rather than cash benefits and carbon credits?
- How can project developers best provide capacity building to local communities to empower them to govern their own projects?
- What are the capacity needs of Pacific governments, including sub-national government stakeholders, in regulating VCM projects, and how could these be met?
- Given the high up-front costs for carbon project, what opportunities are there for project developers to obtain financing to cover these costs in Melanesia?
- Are there opportunities to facilitate learning and sharing from successful/high integrity VCM projects with Government?