Potential of voluntary carbon markets as a novel approach to forest conservation in Melanesia

Policy brief

Australian Government | Climate Resilient by Nature | WWF | sustineo

Key takeaways

- Alternatives to logging are urgently needed in PNG and Solomon Islands.
- VCMs can address some of the key weaknesses of other forest conservation approaches, particularly sustainable financing.
- Governments and the donor community have an essential role in ensuring VCMs are implemented well, in ways that benefit both nature and people.
- PNG is soon to adopt ambitious carbon trading regulations to respond to the issues of earlier REDD+ projects, providing lessons for other Pacific countries.

Forests in Papua New Guinea (PNG) and Solomon Islands are under threat. For over 40 years, commercial logging has been causing damage to the environment and to local communities in these Melanesian countries. Voluntary carbon markets (VCMs) offer a new opportunity for sustainable financing of forest conservation. Drawing upon a recent research study,[1] this policy brief outlines the potential that VCMs offer for forest conservation in PNG and Solomon Islands and makes recommendations to help Pacific government and the donor community realise this potential.

Recommendations to support high integrity VCMs in the Pacific

Based on the study's findings (see page 4), we have developed the following eight recommendations for PNG and Solomon Islands government decisionmakers and the donor community.

[1] *Assessing the potential of voluntary carbon markets as a novel approach to forest conservation in the Melanesian Pacific*, which analysed four case studies through a detailed desk study and stakeholder engagements with 30 individuals from government, civil society, and academia in both PNG and Solomon Islands.

1. Melanesian Pacific governments should continue to engage with VCMs as novel approach to forest conservation.

Forest conservation is an urgent issue in the Melanesian Pacific, offering environmental benefits and avoiding the social harms of logging. VCMs can address challenges that have hindered previous conservation efforts. Governments should continue to engage with VCMs, ensuring that participation is appropriately regulated and supported, in line with the recommendations below.

2. Regulatory frameworks need to allow for projects to be developed at an appropriate and pragmatic scale, including creating space for small projects.

Regulating large VCM projects is important to avoid a repeat of the problems seen in the first wave of REDD+ projects in PNG, but regulations also need to make space for small scale projects (which this study found are more likely to be high-integrity). PNG and Solomon Islands governments should consider following the approach of carbon standards like Plan Vivo, which distinguish between 'macro' and 'micro' projects. There may be scope to specifically distinguish 'macro' and 'micro' projects in regulatory frameworks based on project size or emissions reduction potential, with differentiated requirements for these categorisations. This would reduce the administrative and regulatory burden on smaller projects, helping them to remain feasible. For Solomon Islands, these distinctions could be included as part of drafting, but for PNG would likely require amendments to the existing carbon regulatory framework.

3. Regulations should allow flexibility to tailor tools and processes to the socio-economic and cultural context of each community.

Communities in PNG and Solomon Islands are very diverse, requiring different approaches to VCM project design and implementation. While regulations must ensure clarity and consistency, they should be flexible enough to accommodate local needs in areas such as community engagement timelines, landowner representation models, and benefit-sharing mechanisms. Communities – and project developers where trust is established – are best placed to know what tools and processes are appropriate. PNG's REDD+ FPIC Guidelines offer a positive example, recognising the importance of legitimate landowner representation, and providing for a range of options for landowner representation models. [2,3]

[2] FPIC stands for Free, Prior, Informed Consent.

[3] That said, there appears to be a contradiction between the FPIC Guidelines, which indicate that Customary Landholders and Local Communities (CLLCs) may be represented as an Association, Business Group, Land Owner Company or ILG, while the *Climate Change (Management) Carbon Markets Regulation* define CLLCs as being registered as an ILG. Restricting landowner representation to ILGs would be problematic given the widely acknowledged problems with this mechanism (see Allen 2013).

4. Communities need to be supported to make informed decisions about carbon projects and benefit-sharing and encouraged to prioritise non-cash benefits.

Communities in PNG and Solomon Islands often have limited understanding of carbon, carbon markets, and the benefits they offer. While FPIC processes are the responsibility of project developers, government and the donor community can support informed community decision-making through providing clear, accessible information in local languages. This support could also include encouraging communities to reflect on previous experiences with direct cash payments. There may be opportunities for regulations to require that certain resources or training are provided as part of FPIC processes, and to encourage provision of non-cash benefits through participatory decision-making processes.

5. Communities need to be empowered to govern their own projects.

To make decisions about carbon projects and manage benefit-sharing, communities must be supported to govern their own projects. Ideally, this means that the community are the legal owners of the carbon project, through formation of an appropriate business entity, allowing the community to be the owners of the carbon credits until they are sold to a buyer. Landowners can be provided with training to develop the necessary skills, and governments should consider implementing requirements for communities to become legal project owners after a set period. This approach fosters local ownership and long-term sustainability.

6. The donor community should contribute to upfront financing of high-integrity VCM projects.

High-integrity VCM projects offer the best outcomes for communities, but face a disproportionate burden from high upfront costs for community engagement. Donor funding, through grants or facilitating pre-purchase of carbon credits, can reduce financial risks, allow the time and resourcing needed to ensure fair and inclusive establishment processes, and help communities see benefits sooner.

7. The donor community should continue to support capacity building for governments to develop and implement effective regulation for VCM projects.

The donor community has already been involved in supporting Pacific governments to develop regulatory frameworks for VCM projects, as recently seen in the donor support for Solomon Islands' new project to develop a carbon trading policy. This support should continue and expand, with a long-term focus on building government capacity – including at the subnational level – to enforce and monitor these frameworks once they are established.

8. Governments need to share lessons from their experience with VCM projects and regulation.

The Government of PNG now has experience with a variety of VCM projects, and with the process of developing carbon trading regulations. They are nearing the end of the regulatory processes that the Solomon Islands Government is just beginning. While the two countries are different, they share many cultural and political features, creating strong opportunities for co-learning. Lessons should be shared between these countries, and other Melanesian governments (notably Vanuatu and Fiji). There are also opportunities for sharing of lessons

and experiences between different levels of government within countries. The donor community can support this process by funding, organising and facilitating learning events and dialogues.

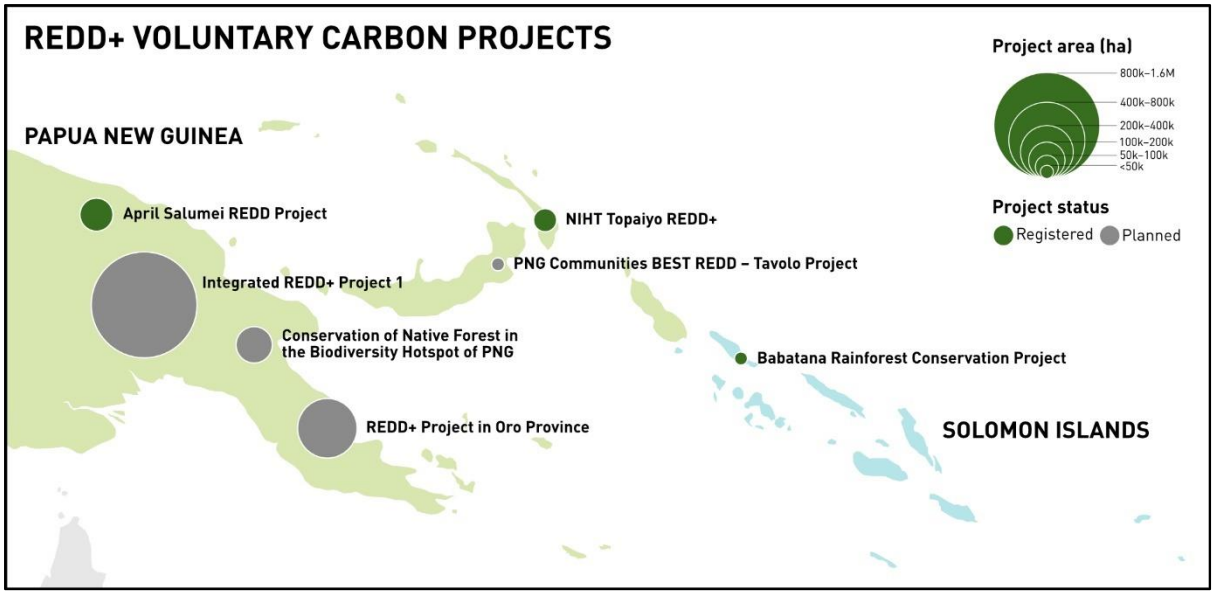
Study findings

Viable alternatives to logging are urgently needed

- For over 40 years, logging in PNG and Solomon Islands has exceeded estimated sustainable harvest rates.
- Logging creates environmental damage through greenhouse gas emissions, loss of ecosystem services and damage to water catchments and reefs.
- Logging is driven by promises of economic benefits, providing revenue for governments (more significant in Solomon Islands) and short term cash for communities who lack infrastructure and services.
- Due to corruption and unethical behaviour, these economic promises have failed. Governments have lost revenue and communities receive only short term and unfairly shared payments.
- Logging creates severe social problems: community tensions, weakened traditional governance structures, substance abuse and exploitation (especially of women and girls).
- Previous attempts at reform in the logging sector have largely failed. While both governments now acknowledge that current logging rate are unsustainable and have made commitments to reduce them, real change is yet to be seen.

Forest conservation and VCMs

- Forest conservation approaches have changed over time, moving towards community-based and participatory models which use legal instruments. Ongoing funding remains a key challenge.
- VCMs offer opportunities to meet the funding challenge of forest conservation, while also addressing social issues associated with logging.
- The first wave of VCM projects – particularly relatively large REDD+ projects in PNG – were highly problematic, and created many of the same social issues as logging: poor community engagement, unfair benefit-sharing and corruption.
- A new wave of smaller VCM projects is emerging, showing better results in working with community engagement and safeguarding. These projects indicate that sustainable conservation financing can be achieved without the problems associated with the first wave of REDD+ projects. However, these projects are new and it remains to be seen if they can deliver sustainable long-term financing for forest conservation.
- Small VCM projects face high upfront costs, particularly for implementing best practice for community engagement and FPIC. Project developers are reliant on donor and grant funding, and increasingly, private sector finance, to meet these costs.



This map shows the 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 our study. *Note: Project sizes are not to scale with the background map.*

‘Ingredients for success’ in designing and implementing high-integrity VCM projects

Although challenges remain, high-integrity VCM projects offer strong potential to support forest conservation when designed and implemented effectively. Using four forest conservation case studies from PNG and Solomon Islands, our study identified four ‘ingredient for success’ that underpin high integrity VCM projects:

1. **Working at an appropriate and pragmatic scale** increases the likelihood of VCM project success. The case studies show that 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 sharing 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 as needed, creating sustainable and accountable project ownership.

The enabling environment for high-integrity VCM projects

- It is a critical time for engaging with VCMs in PNG and Solomon Islands. The need for national VCM regulation in PNG and Solomon Islands was broadly acknowledged, particularly given previous challenges with regulating VCM projects in PNG.
- PNG's carbon market regulatory environment is much more developed than Solomon Islands', with a carbon market regulation soon to be finalised, and a broader policy and set of guidelines published.
- The PNG regulatory environment is rigorous and seeks to respond to the issues seen in the first wave of REDD+. There are some concerns about its implementation, including areas that require clarification and challenges for small scale projects to meet the requirements.
- The Government of Solomon Islands has just launched a project to develop a carbon trading policy for Solomon Islands, but this is in the very early stages.
- The Governments of both PNG and Solomon Islands are interested in targeting the UNFCCC compliance market and VCMs, but there is a recognition that a greater level of government capacity is required to target the compliance markets
- To support government capacity in regulation, monitoring and enforcement of carbon markets, it is important for the government to receive financial benefit from VCM projects.

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Reference:

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Cover photo:
Aerial view of the Blue Hole at the source of the Esis River about 12 km upstream from the coast. Pomio District, East New Britain Province, New Britain, Papua New Guinea.© WWF-Pacific / Tom Vierus