



CHAPTER TWO

MOVING TO A MARKET MECHANISM FOR FOREST CLIMATE SERVICES

Chapter One outlined how, over time, Guyana intends to integrate with emerging international markets that value the country's globally significant ecosystem services. Carbon markets are the immediate priority because they are the most mature ecosystem services market.

Carbon markets are a mechanism by which emitters of greenhouse gas emissions (for example, individuals or companies) compensate for their emissions by buying certified carbon credits to pay either for emissions reductions or sequestration (storage).

While the use of carbon credits is a wide and complex field, the two main areas where carbon markets are increasingly used as a policy tool are to create incentives to: (i) start fixing the market failure where the world's tropical forests are not valued for the climate services they provide; (ii) accelerate the deployment of renewable energy.

Guyana will pursue progressive integration with global markets that address these and other areas. This includes relevant *voluntary* markets (where companies choose to pay for carbon credits to deliver on their corporate strategies to contribute to greenhouse gas emissions reductions and sequestration) and *compliance* markets (where companies and governments are required by law or regulation to pay for reductions and sequestration). Priority efforts on forest climate services are outlined below, with opportunities for renewable energy in Guyana's hinterland outlined in Chapter 3.

Carbon Markets for Forest Climate Services

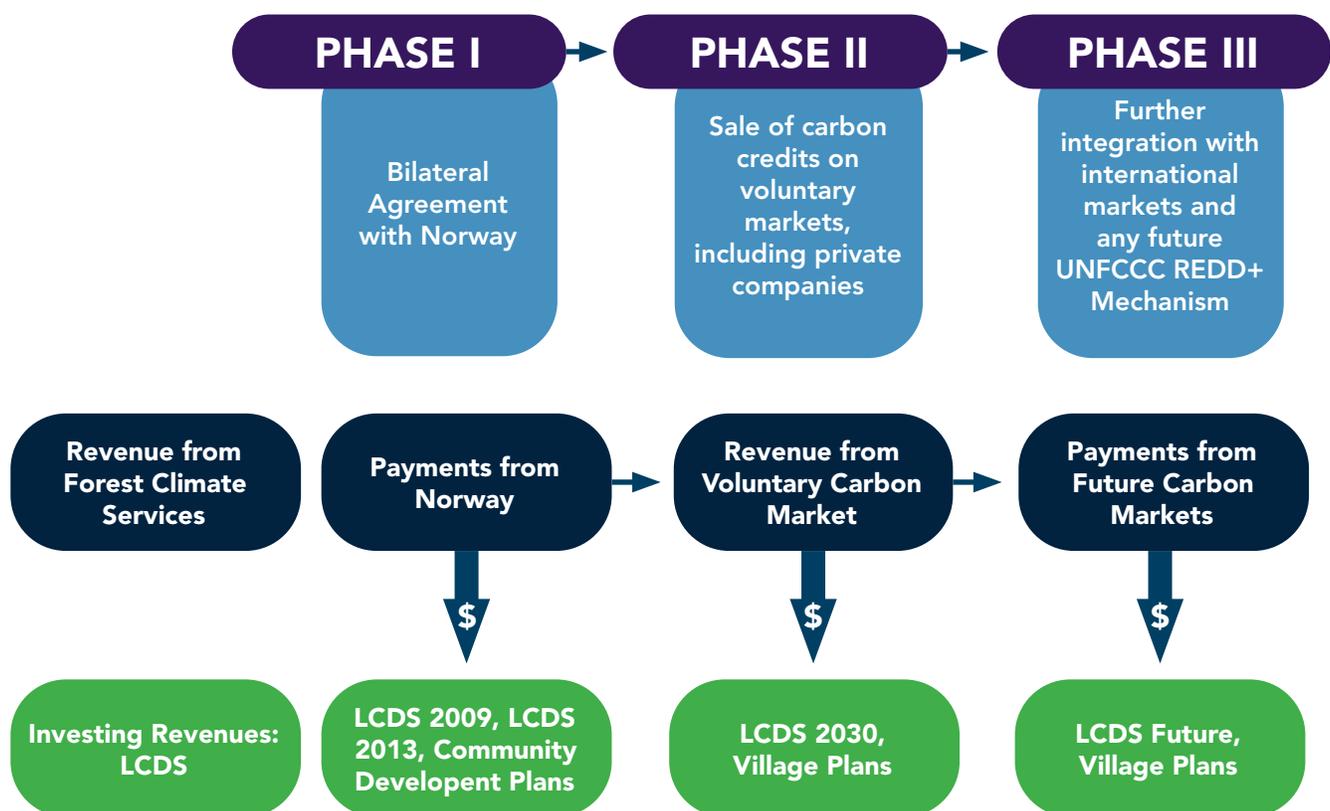
For many years, Guyana, along with most countries, has advocated for the inclusion of forest climate services in carbon markets. This is now part of the United Nations Framework Convention on Climate Change (UNFCCC), through a mechanism known as REDD+.

The 2009 LCDS outlined how Guyana intended to start building a mechanism for REDD+, through a three-phase process:

- Phase I - a bilateral agreement with a partner which shared Guyana’s vision
- Phase II – available market-based mechanisms
- Phase III - a fully-fledged UNFCCC REDD+ mechanism.

As the payment mechanism evolved through the phases, revenues would be invested in the LCDS – as outlined in Figure 2.1.

FIGURE 3.1 PHASED APPROACH TO GUYANA’S FOREST CLIMATE SERVICES AND LCDS



For Phase I, Guyana entered the Guyana-Norway Partnership in 2009 and among other successes built a world-class Monitoring, Reporting and Verification System (MRVS) for forest carbon, which now enables Guyana to move to Phase II for selling forest climate services in voluntary carbon markets.

Phase I: The Guyana-Norway Agreement

In the absence of a UNFCCC REDD+ mechanism, Guyana and Norway sought to create a globally replicable model for a likely REDD+ mechanism. When it was agreed, the Guyana-Norway Agreement was the second-largest Interim REDD+ arrangement in the world.

During the period 2009 to 2015, Guyana earned US\$212.6 million dollars in payments for forest climate services from Norway, which reached US\$220.8 million when investment income was included – the revenues were invested in renewable energy, protection against climate change, land titling, job creation and other priorities from the original LCDS. These are summarised in Appendix 3.

The period 2016 to 2021 saw no payments for forest climate services under the Guyana-Norway Agreement but Guyana's MRVS continued to operate, allowing the generation of carbon credits for that period. These can be sold if a market can be accessed in Phase II.

Phase II: Moving to a Carbon Market Mechanism

The long-term future of forest carbon markets is expected to be underpinned through the UNFCCC's rules and corresponding international agreements. Towards this end, progress on REDD+ was made at, and since, the 2015 Paris Climate Agreement. In 2021, at the Glasgow Conference of the Parties (known as COP26) of the UNFCCC, Guyana joined with other forest countries and the international community to pursue the enshrinement of a workable market mechanism within the UNFCCC. Progress was made at COP26 on the rules for market mechanisms – specifically towards the operationalisation of Articles 6.2 and 6.4 of the Paris Climate Agreement which address markets.

As a result of this work at the global level, coupled with the continued operation of Guyana's MRVS for over a decade, Guyana now can move to Phase II of the vision set out in 2009, and seek to access market-based mechanisms for forest carbon. From 2022, there is a strong possibility that Guyana's sale of forest climate services can be structured around high-quality voluntary markets that could include private, as well as international public sector, financing.

Guyana will generate credits to be traded in these voluntary carbon marketplaces, with independent verification of the quality of those credits and their adherence to UNFCCC rules for REDD+. These rules include science-based criteria and a set of social and rights-based safeguards, known as the Cancun Safeguards.

To benefit from this opportunity, Guyana is conducting a five-step process to:

- I. **Confirm Guyana's objectives:** determine what a market mechanism needs to provide to be valuable for Guyana and the world

- II. **Choose a Standard:** assess whether there is a global carbon market standard that sufficiently matches Guyana’s objectives
- III. **Engage with the chosen market standard:** start the process of generating certified credits
- IV. **Sell Guyana’s credits:** earn revenues and invest them in the LCDS 2030
- V. **Ensure a fair sharing of revenues:** design a revenue/benefit sharing mechanism so that all revenues are invested in priorities identified through the national consultation on LCDS 2030, with a dedicated focus on indigenous peoples and local communities (IPLCs). A major focus of the national consultation on the draft LCDS involved receiving input and ideas from communities, individuals, non-governmental organisations and others – with the resulting revenue sharing mechanism set out under Step Five below.

During the seven-month national consultation on the draft LCDS, preparatory work took place on each of these steps. However, in line with the commitment set out by President Ali in October 2021, no binding deals would be concluded until the national consultation on the draft LCDS 2030 has taken place.

Step One: Confirm Guyana’s Objectives for Forest Carbon Credits

There is broad consensus that a market mechanism is needed in Guyana and globally that is: *jurisdiction-wide* (national-scale or in the case of very large countries, at the level of states); *high quality*, demonstrating additionality, permanence and high environmental integrity and community development co-benefits; *holistic* to incentivise all elements of REDD+. This is the only way to provide the full suite of incentives for all the world’s tropical forest countries to reduce deforestation and maintaining standing forest.

Therefore, as set out in Figure 3.2 Guyana’s proposed forest carbon mechanism – outlined in Appendix 2 - has four modules for incentive creation:

- **Reduce Deforestation** - to incentivise reducing deforestation; albeit that in Guyana’s case deforestation is already the lowest, or close to the lowest, in the world
- **Restore Forests** - to incentivise restoring forests where deforestation has already taken place; in Guyana’s case there are 200,000 hectares where this could happen as a priority
- **Remove Carbon** - to recognise the value that standing forests continue to provide by removing carbon dioxide from the atmosphere; Guyana’s forests remove about 154 million tons of CO₂e every year, about the same as annual greenhouse gas emissions from Norway, Sweden, Finland and Denmark combined
- **Conserve Carbon** - to recognise the value that standing forests provide to the world by storing carbon sequestered over hundreds of years, in Guyana’s case 19.5Gt of stored carbon.

Guyana Forest Carbon Credits



CONSERVE

Guyana's 18 million hectares of forest store over 19.5Gt of Co2. Guyana aims to maintain 99% of this forest as a global asset.



REMOVE

Every year, Guyana's forests remove 154 million tons of Co2 from the earth's atmosphere.



REDUCE

Guyana aims to keep deforestation rates at 90% below the global average.



RESTORE

Guyana aims to regrow about 200,000 hectares of forest as a priority.

Step Two: Choose a Market Standard

From mid-2021 to the end of June 2022, the Government carried out an assessment of potential voluntary market standards against Guyana's objectives. During 2022, members of the Multi-Stakeholder Steering Committee (MSSC) which oversees the LCDS 2030 were also invited to identify potential alternative market standards.

In assessing the available standards, it became clear that across the world, there are many small-scale, project-based standards for forest climate services. There are also many potential global markets for small-scale interventions (for example, markets that only focus on spot reductions in deforestation).

Only the ART-TREES standard, supported by several governments across the world, comes close to Guyana's criteria.

REDD+ under the UNFCCC is designed as a national system, which means that Emissions Reductions (ERs) will be accounted under a national reference level (RL). This is also the case for the ART-TREES methodology. National systems have the premier level of environmental integrity, unlike project-scale systems where action in the project area could potentially displace deforestation or biodiversity loss to another area within the same jurisdiction.

The ART-TREES standard also recognises Guyana's forest climate services for the period 2016-2021, which would allow no gap in payments. With ART-TREES, Guyana can deliver on the second phase of its vision for forest climate services where Norway paid in Phase I for credits from 2009-2015, with ART-TREES credits being available from 2016 to enable the start of Phase 2.

Step Three: Engage with ART-TREES

The operational details of the ART-TREES mechanism are set out in Appendix 2– but in summary:

- Every year, Guyana submits:
 - a report from its Monitoring, Reporting and Verification System (MRVS).
 - a Summary of Information on REDD+ Safeguards (SOI) highlighting continued adherence to UNFCCC social and environmental safeguards.
- Guyana's submission is then audited by independent auditors who are registered with the ART-TREES secretariat.
- The audit outcomes are available to the public and reviewed by the ART Board. If Guyana passes through the process successfully, the credits are certified.
- Once the credits are certified, the ART-TREES Secretariat will record this on the publicly accessible ART Registry, from which point they will be available for purchase.

Credits can be purchased by buyers who recognise the ART-TREES standard – and sales will take place in accordance with both the UNFCCC rules on carbon markets and the rules of the countries where carbon trading takes place.

ART-TREES, in common with most carbon market mechanisms, operates through commitment periods. In the case of ART-TREES, these are five-year commitment periods: 2016-2020, 2021-2025, 2026-2030, etc. As part of its engagement with ART-TREES, a country (or sub-national jurisdiction) commits to engage for one or more commitment periods.

Figure 2.2 shows the projected number of ART-TREES credits to be generated by Guyana for the historical commitment period (2016-2020), as well as the current commitment period (2021 onwards).

Year / Period	Number of Credits
2016-2021	44,000,000
2022	8,000,000
2023	8,000,000
2024	8,000,000
2025	8,000,000

Figure 2.2 Anticipated ART-TREES Credits

Step Four: Selling Credits

Once the credits are available for sale, these can be sold on carbon markets, either directly by the jurisdiction selling the credits (e.g. Guyana), or through brokers. The agreements which set out the terms under which credits are sold are known as Emission Reductions Purchase Agreements (ERPAs). Prices for credits will be based on global demand for ART-TREES credits.

Buyers of credits could be sovereign governments (for example, the Government of Norway) or private companies with voluntary commitments to support the maintenance of the world’s forests or to act on climate. For example, as announced at the Climate Summit convened by the President of the United States, some of the world’s major companies (led by Amazon.com), along with leading sovereigns such as Norway, the US and the UK, anticipate adopting ART-TREES as a standard by which they will meet some of their climate pledges. They will pay for these credits through several channels, including the LEAF Coalition.

President Ali made a commitment that no deals for selling Guyana's credits would be concluded before the end of the national consultation. To prepare for this, in the first quarter of 2022 the Government ran a Request for Proposal (RfP) process where proposals were sought from potential buyers of Guyana's credits.

After the seven-month consultation has been completed, Guyana will enter into agreements for the sale of ART-TREES credits with the best candidate(s) from this RfP process.

Any agreements reached will be published on a Government of Guyana website, and its terms will be independently audited in accordance with accepted international standards.

Step Five: Investing Payments and Sharing Benefits / Revenues

Once Guyana has taken the steps above and has integrated with global carbon markets, new revenue streams for Guyana's forest climate services will start to flow.

The jurisdiction-scale approach and high level of integrity embedded within the ART-TREES standard gives Guyana the opportunity to maximise potential benefits across the country in contrast with progressing with one or more smaller projects, whose overall impact would be significantly less.

All revenues will be transparently administered via the Consolidated Fund, enabling them to be scrutinised and approved by the National Assembly via the National Budget process.

To prepare for these new revenue flows, the first draft of the LCDS 2030 proposed that all revenues would be invested through a combination of:

- national programmes outlined in the draft LCDS 2030 (e.g., renewable energy as described in Chapter 3, land titling as described in Chapter 4, repairing canals, and protecting against climate change as outlined in Chapter 5), and
- community/village-led programmes for indigenous peoples and local communities (IPLCs) as set out in Village Sustainability Plans or equivalent, put together by communities themselves.

The first draft of the LCDS 2030 proposed a revenue-sharing ratio across these two pathways. These funds will be available to Amerindian Villages to support development initiatives. This would be supplementary to the significant investment in villages from the national programme pathway.

Significant feedback was received back on the proposed revenue sharing approach, and the resulting opt in mechanism is anticipated to start in July 2022. The National Tosahos's Council, the constitutional body representing Indigenous Villages in Guyana, and represented by Village Toshaos, passed a resolution at the July 2022 Conference, endorsing this approach.

Opting Into the ART-TREES Revenue Sharing Mechanism

Guyana has 218 Amerindian and other hinterland villages/communities away from the country's main urban areas, with a population of about 98,000 people or 13% of Guyana's population – these are all considered local communities for the purpose of Guyana's ART-TREES jurisdiction-scale approach.

Each village has an elected Toshao or Village Captain and elected Councillors who act as the executive body of the village. The Amerindian Act sets out how the powers of the villagers are exercised through decisions made in a village general meeting, which must be held by law at least once a quarter.

Given their unique role in the stewardship of forests and other landscapes, Amerindian and other local communities will have the opportunity to engage with both pathways for ART-TREES revenues. The dedicated revenue stream will be shared equally with villages and communities, including those that are covered with forest as well as those with non-forest ecosystems. Communities are free to opt in to this dedicated mechanism for local communities. No deadline will be set for opting in.

As part of the structure of the mechanism:

- the Ministry of Finance will allocate 15% of all revenues to be used by villages for their own Village Sustainability Plans (VSPs).
- by the end of 2022, village councils in all communities will be invited to produce an Outline Village Sustainability Plan (VSP), created in consultation with their village, in line with the process outlined overleaf. This should cover the period up to 2025 (or longer if the village chooses). The Government will provide assistance to village if this is requested, and it is anticipated that several non-governmental organisations will also be willing to provide assistance.



PROPOSED PROCESS FOR OPTING IN

A decision to opt into the ART-TREES revenue sharing mechanism will enable a village to access benefits from the sale of ART-TREES credits. For the previous and current ART-TREES commitment periods (covering revenues for the period 2016-2025), the village leadership (the Village Council) will be invited to consult with members of the community to agree to:

- produce an Outline Village Sustainability Plan by the end of 2022
- finalise the Village Sustainability Plan by the end of June 2023

Based on existing village-led decision-making processes, principles of FPIC, and feedback received during the national consultation on the draft LCDS 2030, the following process is recommended for producing Village Sustainability Plans (VSPs):

- The village council will call a village meeting, to which all villagers will be invited and where all adults will be entitled to vote.
- In advance of the meeting, the village council (with the support of government and/or non-governmental organisations, if requested) will provide villages with clear information on the potential revenue for the village as well as the requirement to invest revenues in a Village Sustainability Plan, which will be put together by villagers themselves.
- Communities will produce a Village Sustainability Plan to basic standards of financial transparency and accountability.
- A vote by two-thirds of those present will be recognised as the decision of the village.
- The village Toshao will communicate the village's decision to the ART-TREES national focal point (the Guyana Forestry Commission).
- The ART-TREES focal point will ensure a record of all village decisions is publicly available (including through a website).

The process above draws on input from long standing good practice on FPIC, as well as the National Toshao's Council Policy Statement of 2019 which outlined key pillars of FPIC. These principles of FPIC form the guidelines to be applied for village level planning and decision making in shaping investment plans for forest climate financing to ensure village ownership, and longevity in project implementation.

- Right to say “Yes” or “No” to development, benefit or opportunity
- Timely and full information-sharing through appropriate communication methods in order to create clear understanding.
- Full financial disclosures from prospective partners and business investors.
- Right to make own informed decisions
- All decisions based on FPIC must respect the rights, interests and special connections of Indigenous peoples to the lands and waters of villages/ communities.
- For any decision taken the people and villagers must have full participation.
- There must be a feedback mechanism for transparency and accountability.

VILLAGE SUSTAINABILITY PLANS (VSPs)

Because they will be led by villages, the specific format and content of VSPs will vary, but previous experience suggests villages will likely run a set of workshops to identify priorities, determine an action plan and produce information such as:

- A vision statement for where the community sees itself in 2030
- Identified priority areas to deliver on the vision up to 2030, likely to include areas such as:
 - Community Infrastructure and Communications
 - Clean Energy
 - Information and Communications Technology (ICT)
 - Livelihood Opportunities such as
 - Tourism opportunities for jobs and economic activities
 - Agricultural opportunities to ensure food security and income generation within villages
 - Nature and Environment: how can they be sustainably maintained
 - Education, for example:
 - Ensuring equal access to education facilities that are local
 - Adult Education for literacy and numeracy
 - Scholarship programmes for local students
 - Health
 - Safe and Affordable Drinking Water
 - Access to adequate and equitable sanitation and hygiene for all
 - Access to sexual and reproductive health care services

Nesting: REDD+ Projects

As outlined in the earlier parts of this chapter, ART-TREES will be the centrepiece of Phase II of the national scheme for forest climate services and a major source of economic opportunity for local communities and the country overall. Moreover, once ART-TREES credits are being issued in Guyana, this will enable the integration of compatible REDD+ projects in a number of areas of the country. This is likely to be of most immediate relevance for:

- **Restoration projects.** Mine-site reclamation and closure are legal requirements for all mining operations and are critical to ecosystem restoration or re-establishment. To date, approximately 200,000 hectares of forest areas are available for rehabilitation/reforestation. Whilst some areas may see new vegetation, the majority of these areas will require rehabilitation activities. A Land Reclamation Project was set up in 2014 and resulted in demonstration sites established in pilot areas that included Olive Creek, Dacoura Mines, and Thomas Island, Puruni. The project sought to encourage and promote the reclamation of mined-out areas, especially for small and medium gold-mining operations and was implemented jointly with the private sector. The findings of these pilot activities have been used to guide national decision-making on reforestation and land reclamation in small and medium mined-out areas.
- **Mangrove restoration and conservation projects.**

Once the ART-TREES mechanism has been operationalised, the Government will be open to expressions of interest for projects that are compatible with the ART-TREES national system, including integration of social safeguards and the inclusion of local communities.

This compatibility is known as “nesting” under REDD+. In a practical sense, it could lead to proposals for forest or mangrove restoration projects based on either the ART-TREES standard itself or based on other standards such as Verra or Gold Standard, in accordance with the rules for “nested projects” under ART-TREES. Such rules include the adoption of harmonised definitions, rules for baseline setting, MRV standards, and approval requirements adherence to the rules will be a prerequisite to ensure that nesting creates incentives for private investments in projects while protecting the environmental integrity of the national REDD+ system.

Towards this end, private and non-governmental organisations will be invited to submit expressions of interest on a rolling basis.