

# **The Nature Conservancy Input to the Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF**

## **March 14, 2012**

### ***Overarching Comments***

The draft text on each element should aim for the longer format in the example provided in the powerpoint slides for the March 1, 2012 call (e.g., about 3-5 lines, versus 1 line). We recognize that this may not always be possible given the range of views within the WG. However, without a minimum level of detail it may be harder to get PC approval of the principles and guidance text. TNC also supports including explanatory text in an annex (probably non-operational) that further explains key choices made, and perhaps highlights remaining decisions that would be addressed in further methodological work.

TNC is generally supportive of drawing from standards and approaches developed under climate policy initiatives in addition to the UNFCCC. We like the drafting of Principle #2 (March 1<sup>st</sup> slides, Table 2), and would like this to be interpreted broadly in developing the draft text, or explicitly see this language be included in other principles. TNC sees consistency with the UNFCCC emerging rules as a core goal for the Carbon Fund, while recognizing that the timing of those rules may limit their utility for the Carbon Fund, and that there also may be useful guidance coming from the important work being done in other venues. Furthermore, while Principle #2 is indicated as a programmatic consideration (e.g., in background note #5), TNC sees this as also being relevant to the carbon accounting elements.

### ***Specific Comments & Drafting Suggestions***

**ER Accounting Element #3:** Methodology for estimating REL/FRL, and consistency with national REL/FRL approach. TNC sees consistency with a national REL approach as too narrow a scope for the element. The intent of our suggested language below is to give the CF the flexibility to ensure that ER Accounting results in “compliance grade” emission reductions. To this end, we would like to see that emission reduction accounting for the Carbon Fund be consistent with financing and incentives approaches under the UNFCCC (and other programs where relevant), at the time of the ERPA negotiation, and with a more general principle of environmental credibility and the goal of slowing, halting and reversing emissions from deforestation and degradation. Specifically, some approaches to constructing a REL, while useful within the context of an R-PP or informing national REDD policy (e.g., identifying drivers), may not on their own be a suitable basis for a results-based payment scheme.

TNC suggests keeping the existing Element #3 on RELs, and adding a new element on ER accounting:

**ER Accounting Element #3b:** “The ERP shall propose a methodology for estimating emission reductions, informed by the REL described in Element #3, and consistent with rules for incentives and financing

approaches under the UNFCCC and other major policy initiatives, as relevant. Emission reductions accounting proposed as the basis for payments from the Carbon Fund shall promote environmental integrity and be consistent with a goal of slowing, halting and reversing emissions from deforestation and degradation.”

**ER Accounting Element #5 (Non-Permanence):** The Carbon Fund must have in place measures to identify when reversals have occurred, and mechanisms to assign liability for those reversals and make the Carbon Fund whole (i.e., either replacing with other valid emission reductions, or refunding the appropriate costs). Appropriate mechanisms for addressing identified reversals could include a buffer reserve (individual, and/or pooled across all ERPs), bonding or insurance by the ERPs, and other approaches.

Suggested text for ERP Principles: “The ERP shall include, as a part of the ER measuring and reporting requirements, the specific capacity to identify and report any reversal of previously reported emission reductions. The ERP shall have the financial and management capacity to address any reversals in a manner consistent with Carbon Fund requirements.”

**ER Accounting Element #6 (Leakage):** Leakage has always been a major concern for REDD+ (as well as many other sectors), and is ultimately best dealt with by achieving national-level MRV with broad participation of REDD+ countries. In the context of the Carbon Fund and other pilot/demonstration programs, a reasonable balance must be struck between addressing leakage and recognizing the inherently limited scale of the Carbon Fund and individual ERPs compared to full REDD+ implementation. A reasonable approach could consist of three elements:

- (1) A well-designed ERP that by necessity addresses the relevant drivers of deforestation and degradation.
- (2) Accounting for geographically proximate leakage. Accounting should in most cases use approved default estimates of leakage rather than detailed program-specific analysis which are costly and relatively uncertain. Accounting in this context means that leakage estimates are deducted from the overall ER measuring and reporting.
- (3) No accounting for leakage that occurs outside the national borders. (One exception here may be ERPs that straddle or are adjacent to national borders.)

**Programmatic Element #1 (Government Endorsement):** TNC suggests that the language allow for cross-border ERPs; add “, or governments as appropriate”. Also, the language should specify national government.

**Programmatic Element #3 (Safeguards):**

Suggested Text: “The ERP shall meet World Bank social and environmental safeguards, and shall comply with all relevant national and subnational laws and regulations. The ERP shall provide information on how evolving safeguards, including under the UNFCCC and the national REDD+ strategy, are addressed and respected. The ERP implementation of safeguards and information and reporting system shall, to

the extent possible, build upon existing mechanisms and information and reporting systems related to the World Bank, national, and subnational safeguards requirements.”

While perhaps too lengthy for the principles text, we suggest including explanatory text that the REDD+ SES and safeguards elements and frameworks of other major climate policy initiatives could be used as tools to assist the evaluation of safeguards and non-carbon values.