

## **US Comments on the Recommendations of the Working Group on the Methodological and Pricing Approach for the Carbon Fund**

We would like to thank and congratulate the members of the Working Group for their work on recommendations for the Methodological Framework and Pricing Approach. We are supportive of these recommendations and believe they provide a solid structure around which we can build the future full Methodological Framework and Pricing Approach.

We would however like to raise a few issues to on the following sections of the document to ensure they are considered either in the current document or in the future development of the Methodological Framework and Pricing Approach:

### **8. Overarching Accounting and Programmatic Element: Consistency with UNFCCC principles**

In bullet 3 of the Rationale, that refers to "carbon pools and categories of activities": we believe "all *significant* pools" is more appropriate language. We believe this could be made clear in the Methodological Framework itself.

### **9. Accounting Element 1: Stepwise approach to reduce uncertainties**

We believe the language on "conservative assumptions" and "conservative accounting" are too unclear and too relative to use for the Accounting Framework. We suggest the following edits, which we think may capture the intent of the Working Group more accurately:

In the element: "ER Program data and methods are consistent with IPCC Tier 2 standards, and ER Programs should be incentivized to reduce uncertainties..." Deleting the phrase "by using conservative assumptions and quantitative assessment of uncertainties" does not change the intent of the phrase, which we understand to be reducing uncertainty, and increases clarity.

In the rationale: "...IPCC Tier 2 standards are a reasonable starting point most ER Program candidates could reach, though Tier 1 standards may be considered in exceptional cases, with appropriate standards for documenting any biases or uncertainties in the estimates." We think replacing the phrase "with appropriate conservative accounting adjustments" with the underlined text would be more clear. We would like to see this text clarified if possible.

If these edits are not possible in the element and rationale, we would appreciate seeing the concepts "conservative accounting" and "conservative assumptions" clearly defined and explained in the methodological framework.

### **13. Accounting Element 5: Address displacement**

In bullet 3 of the rationale: We understand that international leakage does not need to be accounted for. However we do believe mitigation should be encouraged; to suggest that international leakage should not be mitigated where possible creates the risk for perverse incentives.

We think it might be more accurate to say "Only domestic displacement would need to be accounted for via measures in the ER Program" in the rationale. We would also like to see the mitigation of both

domestic and international leakage encouraged in either the Accounting Framework or Methodological Framework, as appropriate.

#### 16. Programmatic Element 2: Scale and ambition

In bullet 2 of the rationale: While we believe that both watersheds and Indigenous Peoples' territorial units are valuable locations for ER Programs, we are concerned that implementation in these units may only be at a project scale. This may not be as large as the ER Programs we hope to fund through the CF. We believe guidance on the appropriate scale should be included in the Methodological Framework.

We also note that programs which are not bounded by one (or multiple) jurisdictions may find it more difficult to develop program components (RL/REL, MRV systems, safeguard information systems, etc) which are able to fit easily into a national system. This should be considered in program design, and perhaps in the Methodological Framework.

#### 18. Programmatic Element 4 : Stakeholder participation

In the rationale: We believe this language is drawn from the joint FCPF UN-REDD+ Stakeholder Engagement Guidelines. If this is correct, for consistency we would prefer the exact language from the Stakeholder Engagement Guidelines be used here as well:

*"Although the World Bank policy does not expressly ~~refer to~~ mandate "free, prior and informed consent (FPIC)" ~~per-se~~, if the country has ratified ILO Convention No.169 ~~and/or~~ adopted national legislation on FPIC, or if the Bank is working on an ER Program with a development partner that expressly applies the principle of FPIC, the Bank will in turn support adherence to that principle"*

Also regarding in the rationale: We note that we the USG understands Free, Prior and Informed Consent in the United Nations Declaration on the Rights of Indigenous Peoples to mean Free Prior and Informed Consultation a process of meaningful consultation with tribal leaders, but not necessarily the agreement of those leaders, before the actions addressed in those consultations are taken.

#### 19. Programmatic Element 5: Benefit sharing

It is unclear to us what "the assessment" referred to in bullet 3 of the rationale refers to. A minor edit to "This assessment" would more closely link it to the sentence before.

#### 24. Pricing Element 2: Price structure

The language in rationale bullet 1 ("The pricing approach therefore should leave room for adjustments as demand and supply for ERs from REDD+ evolve, in order to entice the parties to an ERPA to enter into a transaction and to protect their respective interests") is not clear. We understand from Working Group members that this was meant to simply refer to the floating portion of the price, but it seems to imply the potential for a new price negotiation part way through the program. We suggest the language of this point be rewritten to better reflect the intentions of the Working Group so that there is no confusion on this point.

Overall:

We note the absence of any language on verification. We believe verification is an important component to an ER Program and will need to be added to the Methodological Framework and Pricing Approach, or included in the ERPA General Conditions.

We also note the absence of any mention of additionality in the recommendations. We recognize that project-specific additionality testing will not be relevant, or even desirable, under the FCPF CF, but also recognize the importance of understanding the motivating factors behind a particular program and the financial sources of support for it in order to ensure that funding for ERs purchased played a role in stimulating the program. This should be further explored in the Methodological Framework, as appropriate.

Finally, we believe it may be useful in the Methodological Framework and Pricing Approach to clearly indicate where there might be differences in approaches or requirements between the two tranches.