

## Forest Carbon Partnership Facility (FCPF)

### Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF (WG)

#### WG Background Note #7: Draft Elements for WG Discussion for the Final Product for the FCPF PC

*Note: This note for the WG is written in roughly the format that the WG could use to produce its product for the Participants Committee. The WG may want to discuss the format, as well as the content, of this note as it meets in Asuncion.*

#### **1. Scope of the WG [0.25 – 0.5 page]**

*[[ add to final product ]]*

#### **2. WG Assumptions in Developing Methodological Elements and Policy Guidance for Pricing [0.25 – 0.5 page] *[[ draft for final product ]]*:**

##### **2.1 Purpose**

The purpose of the methodological framework (MF) was discussed in the FCPF Participants Committee and Carbon Fund (CF) meetings in Berlin in October, 2011, and on WG calls. The MF would allow: a) comparison across ER Programs which come from different countries and consist of different activities, and of how they meet the required characteristics and standards; b) consistency in the determination of the quality of emission reductions (ERs) expected from Emission Reductions Programs (ER Programs); and c) provide guidance to FCPF countries or others in the preparation of ER Programs (e.g., what methods and issues they need to focus on, what is expected by the Carbon Fund, etc.).

With regard to the MF, the Issues Note lists seven characteristics for selection of ER Programs into the Carbon Fund, and an additional six for sub-national ER Programs (see Annex I for the list).

##### **2.2 Use of the Elements and Guidance *[[ draft for final product ]]*:**

A set of ER accounting and programmatic elements and policy guidance agreed by the PC would help guide the development of the MF by the Carbon Fund Participants, assisted by the FMT. The term “elements” is used to distinguish them from the more abstract “principles” used under the UNFCCC and other climate initiatives, and to indicate that some elements combine two or more principles used elsewhere and present them in a way that is more operational for the needs of the CF. The MF is likely to evolve in a stepwise approach, anchored by these operational elements and guidance on pricing, that gradually provides the level of detail required to operationalize the CF.

#### **3. Guiding Elements for the Methodological Framework**

March 21, 2012

### 3.1 ER Accounting Elements

The elements below result from the deliberations of the WG, and are proposed to guide the development of the MF for the CF.

#### Element 1

**Complete and accurate methods: ER Programs should use data, methods, criteria, and assumptions that are complete (including all relevant pools and emissions), accurate (reducing and estimating uncertainties as far as practicable), consistent (to allow comparison across ERPs), and transparent (allowing understanding of the data and methods used).**

#### Rationale:

COP Decision 4/CP.15 requested countries to “provide estimates that are transparent, consistent, as far as possible accurate, and that reduce uncertainties, taking into account national capabilities and capacities”. Transparency addresses the need to provide clear and sufficient information for reviewers to assess the credibility and reliability of ER claims. Completeness as a principle helps assure ERPs all consider the same carbon pools, and emissions or leakage sources in the accounting for and implementation of REDD+ activities, to allow for comparing performance across different ERPs. Accuracy describes agreement between the true value and repeated measured observations or estimations of a quantity, relevant for quantitative estimates of carbon stocks and flows – the more accurate the estimate, the higher the potential value of carbon assets.

#### Other options / Discussion points:

- An alternative proposal urged an overarching element for both the accounting and programmatic elements saying: “The ERP is consistent with evolving UNFCCC standards and principles, including transparency, consistency, completeness, accuracy, conservativeness.”
- If an overarching element was used, the rationale would need to add some discussion of programmatic element aspects.

#### Element 2

**Stepwise approach: ER Program data and methods are consistent with IPCC Tier 2 standards, and ER Programs should make reasonable efforts to migrate to Tier 3 standards, and enhance the quality of REL/FRL, monitoring, and reporting, as support for country capacity and UNFCCC, CF and other guidance evolve.**

**Rationale:**

WG members have recognized that countries are very likely to need to take a stepwise approach in the development of ERP activities, measurement, monitoring, safeguards, etc. Otherwise, countries starting with more limited capacity would be disadvantaged and unlikely to be able to participate in the CF. If the timeframe of the ERP and the pace of improvements or access to enhanced data and methods allow, evolution in the quality of the ERPs should be incentivized. IPCC Tier 2 standards are a reasonable starting point most ERP candidates could reach. (Tier 1 methods rely heavily on regional or international default values for land-use activity and carbon density data, and relatively simple methods.)

**Other options / Discussion points:**

- Are WG members comfortable specifically listing IPCC Tier 2 methods as a starting point for CF ERPs? Is there a better way to reflect WG discussion on this topic?
- This element could be integrated in element 1, but that would make it very complex.

**Element 3**

**Consistency with reference level: ERs from an ER Program should be conservatively measured and reported compared with a transparently presented and clearly documented reference emission level (REL) or forest reference level (FRL) for the ERP area, and any associated buffer or leakage areas that is consistent with the emerging national REL/FRL.**

Rationale:

UNFCCC REDD+ texts and discussions internationally and the FCPF Charter have since the inception of the REDD+ concept maintained that performance of REDD+ activities (and ERPs for the CF) would be measured against a pre-established reference emission level and/or forest reference level. Sub-national ER Programs should be consistent with the (emerging) national and sub-national REDD+ reference level and forest monitoring system.

**Other options / Discussion points:**

- Monitoring and reference level elements were previously combined but are separated here to call attention to the importance of each.
- One WG member's proposal sought to add an additional reference level sub-element regarding consistency with rules for incentives and financing approaches under the UNFCCC and other major policy initiatives, and to promote environmental integrity, and be consistent with the goal of slowing, halting and reversing emissions from deforestation and degradation.
- Another proposal felt use of an REL/FRL unnecessarily constrains and narrows the objective of the CF from testing results-based payment to testing carbon credit generation, and sought deletion on this element.

**Element 4**

**Consistency with monitoring system: ER Programs monitor and report ERs and other non-carbon variables in a manner that is transparently presented and clearly documented, and consistent with the emerging national forest monitoring system.**

Rationale:

Similarly to the discussion of reference levels, UNFCCC REDD+ texts and discussions internationally and the FCPF Charter have since the inception of the REDD+ concept maintained that performance of REDD+ activities (and ERPs for the CF) would be monitored consistent with evolving UNFCCC guidance for a REDD+ forest monitoring system. Such consistency would allow comparison of ERP benefits from different countries, and requires documentation of the data and methods used. Sub-national ER Programs should be consistent with the (emerging) national and sub-national REDD+ forest monitoring system.

**Other options / Discussion points:**

- Monitoring and reference level elements were previously combined.

**Element 5**

**Address reversals: ER Programs should identify potential sources of reversal of ERs (non-permanence), and have the capacity to report any reversal of previously reported ERs, as well as to have financial or other measures in place to address major risks of reversals in ER Program design and measurement.**

Rationale:

Potential reversals of ERs from ER Program activities can be caused by fire, sustained drought, conflict, spontaneous immigration, etc. Such reversals that do occur need to be accounted for to provide environmental integrity (i.e., net emissions to the atmosphere), and/or compensated for via creation of buffer reserves, use of insurance or other approaches.

**Other options / Discussion points:**

- Is it reasonable to “have *financial or other measures in place* to address major risks of reversals”, or is having *capacity* to report reversions adequate for the CF? (emphasis added)
- One proposal suggested addressing drivers of deforestation consistent with the REDD+ strategy.
- A proposal felt stringency in addressing displacement and reversals for Tranche A (unrestricted use of ERs) should be higher than for Tranche B (restricted use), although other members and CF discussion have largely supported a single set of methods for the two Tranches.
- Both reversals and displacement are addressed as issues to be included in the national system for providing information on safeguards, while this element requires measures in place.

**Element 6**

**Address displacement: Sources of potential domestic and international displacement of emissions (leakage) are identified by assessment of the drivers of land-use change; and measures to minimize and/or mitigate the risk of displacement of domestic emissions are incorporated into ER Program design and measurement.**

Rationale:

The unintended displacement or leakage of greenhouse gas (GHG) emissions from the ER Program area to elsewhere in a country also needs to be accounted for to provide environmental integrity. The potential for both domestic and international displacement is proposed to be assessed, to recognize the importance of displacement. But only domestic displacement would need to be addressed via measures in the ER Program. Measures to mitigate international displacement are not addressed in other sectors in UNFCCC policy and methods guidance.

**Other options / Discussion points:**

- A proposal suggested ER Programs could use default values for displacement, rather than undertake costly program-specific analysis.
- Another proposal suggested that ER Programs that straddle or are adjacent to international borders could be an exception that might need to address international displacement.
- Both reversals and displacement are addressed as issues to be included in the national system for providing information on safeguards, while this element requires measures in place.

Table 2: Comparison of UNFCCC Principles re Carbon Accounting, and Proposed CF ER Accounting Elements

| <b>UNFCCC Principles re Carbon Accounting or Major Components of REDD+</b> | <b>Proposed CF ER Accounting Elements</b>   |
|--|---|
| Relevance<br>Completeness<br>Accuracy                                      | <b>1. Complete and accurate methods</b>   |
| Transparency<br>Consistency  | <b>1. Complete and accurate methods</b><br><b>3. Consistency with REL/FRL</b><br><b>4. Consistency with monitoring system</b> |
| Consistency  | <b>3. Consistency with REL/FRL</b><br><b>4. Consistency with monitoring system</b>  |
| REL/FRL and monitoring system as major REDD+ components                    | <b>3. Consistency with RL</b><br><b>4. Consistency with monitoring system</b>   |
| Address reversibility and displacement                                     | <b>5. Address reversals</b><br><b>6. Address displacement</b>   |
| Phasing in of REDD+ activities   | <b>2. Stepwise approach</b>   |

### 3.2 Programmatic Elements

#### Element 1

**The ER Program is endorsed by a national government (or governments, as appropriate) and is consistent with one or more activities of the emerging national REDD+ strategy and the framework for managing national and sub-national programs.**

#### Rationale:

The ER Program should, as far as possible, support the development and implementation of the national REDD+ strategy. As such it should be submitted by the appropriate entity and it should be ensured there is consistency between the activities and processes on the national level and within the ER Program.

#### Other options / Discussion points:

- Is it necessary to have an element on this as part of the methodological framework that would need to be expanded into criteria and indicators, or should this be ensured through other processes?
- One proposal is that the consistency with the national REDD+ strategy could be shown by ensuring that the ER Programs address the identified key drivers of deforestation from the national strategy. The WG could consider if an ER Program should focus only on the key drivers or just any (combination of) the drivers. The WG could discuss what is considered feasible taking into account the relatively small size of the ERPA compared that what most countries would need to address all drivers of deforestation and the relatively short lifetime of the ERPA (5-6 years) in which measurable results will need to be shown to receive payments.
- Another proposal is that the Carbon Fund should, as a principle, seek to include ER Programs that specifically target Indigenous Peoples' territories.

**Element 2**

**The ER Program is consistent with evolving UNFCCC decisions on REDD+ (and other major climate policy initiatives, as relevant and feasible).**

Rationale:

The FCPF is building partnerships among developed and developing countries and other stakeholders to prepare for possible future systems of positive incentives for REDD+. The Carbon Fund should ensure consistency with different evolving initiatives that could provide positive incentives for REDD+ in the future.

**Other options / Discussion points:**

Is it necessary to have an element on this as part of the methodological framework that would need to be expanded into criteria and indicators, or should this be ensured through other processes?

**Element 3**

**The ER Program meets World Bank social and environmental safeguards, promotes and supports the safeguards included in UNFCCC guidance related to REDD+ (and other major climate policy initiatives, as relevant and feasible) and provides information on how these safeguards are addressed and respected.**

Rationale:

The World Bank acts as the Trustee of the Carbon Fund, so all ER Programs will need to meet the World Bank's relevant policies and procedures, including the safeguard policies. In addition, the Working Group believed that ER Programs can promote and support the safeguards identified in the UNFCCC decisions on REDD+, and potentially other major climate policy initiatives, and that the ER programs should provide information on how these safeguards are addressed and respected.

**Other options / Discussion points:**

- One proposal is that this element could include compliance with all relevant national and sub-national laws and regulations.
- Are the safeguards included in UNFCCC decisions already sufficiently covered in the other programmatic elements?
- If so, should the second part of this element be restricted to how the ER Program relates to the national system for providing information.

**Element 4**

**The design and implementation of the ER Program is based on and utilizes transparent stakeholder information sharing and consultation mechanisms that ensures broad community support and the full and effective participation of relevant stakeholders, in particular indigenous peoples and local communities.**

Rationale:

When it comes to the involvement of indigenous peoples, World Bank policy is designed to ensure that the Bank provides financing only where free, prior and informed consultation results in broad community support to the project. As per the Cancun decision on REDD+, the full and effective participation of indigenous peoples and local communities must be respected.

**Element 5**

**The ER Program uses clear and transparent benefit-sharing mechanisms with broad community support.**

Rationale:

ER Programs should use clear and transparent benefit-sharing mechanisms, the design of which reflects broad community support, so that REDD+ incentives are used in an effective and equitable manner.

**Other options / Discussion points:**

- One proposal is that as part of this principle the ER Program and/or the benefit-sharing mechanism should apply transparent and effective governance and financial arrangements. Governance for the ER Program could potentially also be recognized in other elements such as 2 or 3.
- Another proposal is that this element could recognize national circumstances and legislation.
- Should the element include text on equitable benefit sharing and if so, how is equitable defined keeping in mind the differences between Programs and the different types of activities within a Program?

## **Element 6**

**The ER Program covers a significant scale, e.g., the national level, an administrative jurisdiction within the country or some other territorial unit, and is implemented by an entity (or consortium of entities) that has the capacity to implement the proposed REDD+ activities, potentially via a stepwise approach, at this scale.**

### **Rationale:**

ER Programs should be undertaken at a significant scale, e.g., at the national level, at the level of an administrative jurisdiction within a country, or some other level, e.g., large watershed, in line with the proposed national REDD+ management framework. To implement activities at this scale, the agencies involved need to have sufficient capacity (capacity can include technical but also financial capacity).

### **Other options / Discussion points:**

- Is it necessary to have an element on this as part of the methodological framework that would need to be expanded into criteria and indicators, or should this be ensured through other processes?
- How is scale defined (area, financial criteria, ER potential) and what is considered significant?
- Should this element contain reference to the other social and environmental benefits listed under element 7?

## ***Element 7***

### ***Option 1***

**The ER Program reduces emissions from deforestation and forest degradation, conserves forests, promotes the sustainable management of forests, and enhances forest carbon stocks. The ER Program activities provide inherent non-carbon benefits that can contribute to sustainable development, e.g., improving local livelihoods, building transparent and effective forest governance structures, and enhancing or maintaining biodiversity and/or other ecosystem services). The ER Program should monitor and report these non-carbon benefits where feasible.**

### ***Option 2***

**The ER Program contributes to broader sustainable development, including by improving local livelihoods, building transparent and effective forest governance structures, and enhancing or maintaining biodiversity and/or other ecosystem services. The ER Program should monitor and report these non-carbon benefits.**

Rationale:

ER Programs are encouraged to address “additional” social and environmental benefits beyond inherent benefits and safeguards. Guidance on how such additional benefits could be measured in simple and cost-effective ways (e.g., GIS overlay mapping of carbon and biodiversity and/or watershed benefits) could be elaborated by a TAP but should also provide flexibility for proposals by REDD country participants (e.g. using indicators agreed in the country’s monitoring system for multiple benefits).

**Other options / Discussion points:**

- The choice of the options is linked to the options specified in the note on the pricing approach which provides options for paying a premium for non-carbon values.
- One proposal is that as part of the list of sustainable development benefits, Natural Disaster Mitigation should be included.
- To what extent should other sustainable outcomes be monitored and verified, including the setting of a reference level for these activities?

**Annex I: Criteria for Selection of ER Programs into the Carbon Fund Contained in  
the Issues Note of the Carbon Fund**

*Note: All of the items are included as proposed elements for the Methodological Framework, except for number 7.*

“The selection of ER Programs into the portfolio of the Carbon Fund will be based on the following characteristics:

1. Be submitted by the governments or government-approved entities of countries that are FCPF REDD Country Participants, i.e., countries that were selected into the Readiness Mechanism of the FCPF;
2. Be based on performance, i.e., payments for ERs relative to an agreed reference emission level (REL) and/or forest reference level (FRL);
3. Generate high-quality and sustainable ERs (including environmental and social benefits, and minimization of the risk of non-permanence);
4. Be consistent with emerging compliance standards under the UNFCCC and other regimes, as applicable;
5. Be based on transparent stakeholder consultations;
6. Use clear and transparent benefit-sharing mechanisms with broad community support. Adequate governance and financial management arrangements for a transparent benefit sharing will need to be in place prior to the effectiveness of the ERPA; and
7. Generate learning value by testing and demonstrating different approaches that are proposed by REDD+ countries, and learn from them in order to inform the international community on their feasibility.

For sub-national ER Programs, these should also:

8. Be undertaken at a significant scale, e.g., at the level of an administrative jurisdiction within a country or at the national level, in line with the proposed national REDD+ management framework;
9. Be consistent with the (emerging) national REDD+ strategy and recognized as such by the appropriate national authority;
10. Demonstrate capacity to measure and report on ERs. The system should be consistent with the (emerging) national REDD+ MRV system;
11. Be consistent with the national REL/FRL, or with the national approach establishing the REL/FRL;
12. Be integrated in a national institutional framework that will manage and coordinate sub-national programs; and
13. Provide for an assessment of and measures to minimize the risk of displacement of emissions (leakage), reversals (non-permanence) and other relevant risks.”