EC Submission on Methodological Framework Topics

Summary: The FCPF Carbon Fund has invited short submissions on how the Carbon Fund could best address outstanding design issues in a set of papers to inform the development of the Carbon Fund's Methodological Framework (MF)**.** The FCPF and its consultants will review submissions, post them on the FCPF's public web site, and consider them if appropriate in the development of the issue papers.

Issue Paper 1: General Approach for MF, and scope of activities covered.

The primary goal of the FCPF CF, as a pilot activity, would be to bridge a gap between the UNFCCC conceptual framework and real-world operations, with a view to generate lessons, trust and momentum towards the full implementation of REDD+. According to its brochure, the FCPF CF would test *"a variety of approaches for financing and testing in different countries—for example, macro policy and legal reforms in forest conservation and management and/or land-use strategies, payments for environmental services, establishment of parks and reserves and intensification of agriculture, among others"*. The general approach should therefore remain at the level of principles, which would:

- retain flexibility and encourage the design of a variety of concrete Emission Reduction Payment Agreements (ERPAs), and;
- enable a fair, predictable and comprehensive assessment of proposals and results, in strict accordance with UNFCCC provisions.

Standard and indicators, or further technical guidance (as needed) should therefore be negotiated as part of ERPA-specific contractual provisions. There could of course be implications for environmental integrity and the Verified Emission Reductions (VER) an ER Program would generate, but the compliance risk on both buyers' and sellers' sides can hardly be addressed at this stage.

Leakage of emissions between areas and between "activities" (as defined in Decision 1/CP16 §70) is a major risk of subnational/partial approaches, the MF, leading by example, should therefore encourage the largest and most comprehensive coverage of forests and activities (*c.f.* Issue Paper 7).

Issue Paper 2: Reference Levels (RL); and additionality.

Additionality is a CDM concept defined in 3/CMP.1, Annex, paragraph 43 as follows:
A CDM project activity is additional if anthropogenic emissions of greenhouse gases by sources are reduced below those that would have occurred in the absence of the registered CDM project activity. In a CF context, additionality would be the requirement that the greenhouse gas emissions after implementation of an ERPA are lower than those that would have occurred in the most plausible alternative scenario to the implementation of the ERPA. Unless detailed and quantified data on drivers is available, additionality should primarily be understood in its simplest form, as a proven deviation from business as usual, based on a **linear projection of current trends**, taking into account, **for each activity**:

- HER*= **Historical, national, averaged gross emissions/removals**, as estimated by **Tier 1/ Approach 3 (spatially explicit data,** c.f. Issue Paper 3**)** following available IPCCC guidance for estimating Emission Factors/ Activity Data, respectively. The later could build upon available Landsat Data, which can be used for free by all countries since 2000. 2000-2010 would therefore be a suitable reference period. HER*= Average $_{2000\text{-}2010}$ (to smooth inter-annual variability)
- C*=**Historical, averaged change in HER** (as defined above), using 2005 as a pivotal year, using a first order development: C*= Average$_{2005\text{-}2010}$ - Average$_{2000\text{-}2005}$
- Each activity could therefore have its own RL for year Y: **RL_Y= HER*+C*.(Y-2005)**

Consideration of further deviation, taking into account specific country situation (HFLD, LDC[1]…) should be thoroughly justified. Whether and how assumptions on key drivers are factored in should be explicit so to enable ex post recalculation, as appropriate. Optionally, the CF could consider one mid-term recalibration of HER* and C*, using 2005-2010-2015 datasets respectively but more frequent updates should remain exceptional. Uncertainties should be estimated for each factor and overall RL.

For both MRV and RL, emphasis should be put on **Approach 3 (spatially explicit data), rather than Tier 2** (more sophisticated emission factors, as currently proposed in Resolution PC/12/2012/3 and FMT Note2012-8). According to researchers, investing in Tier 2 without a causal understanding of drivers and clear operational definition of activities would lead to meaningless results, which could not be compared overtime or across borders. As highlighted in the Policy Brief "Progress Towards a Consensus on Emissions from Deforestation" (Meridian Institute), monitoring experts still disagree on whether Asian forests emit twice more than African forests or whether it is the contrary, but their figures only converge for South America (*i.e.* Brazil) because *"the best approach for accurately quantifying land emissions is to spatially align activity data and emission factors".* Besides, for REDD+ the **accuracy of the annual change of emissions or removals** (that is VER = the difference between emissions/removals and agreed reference levels, rather than emissions themselves) is essential, for which **Activity Data is the primary factor**. Therefore **methodological consistency in estimating Activity Data for RL and MRV** should be ensured. These data should be publicly available.

As regards a separate "crediting/incentive level" or (as proposed by Arild Angelsen) a "Financial Incentive Benchmark" (FIB below the RL that would take self-supported mitigation actions into account or discount for program uncertainties), it is a concept that deserves further exploration, inter alia in the context of ERPA negotiations.

Issue Paper 3: MRV design: carbon accounting of Emission Reductions Programs, non-carbon, community role; and registries.

Considering the circumstances of the CF (piloting, in REDD+ phase 2), MRV requirements should be light, but should include the essential elements to ensure the *"broadest potential participation of developing countries, [while preserving biodiversity, ecosystem services and social co-benefits and] delivering adaptation and development benefits"* (EU Position). MRV (data collection, processing reporting, QA/QC) should be supported as an integral part of ERPA's costs. Unbracketed parts of the draft decision annexed to the Doha conclusions from the SBSTA Chair already provide useful (if tentative) guidance on Monitoring and Reporting for REDD+:

- *Development of national forest monitoring systems (NFMS) for the monitoring and reporting of [REDD+ activities with, if appropriate, subnational monitoring and reporting as an interim measure], should take into account the guidance provided in decision 4/CP.15 and be guided by the most recent IPCC guidance and guidelines,*
- *Robust NFMS should provide data and information that are transparent, consistent over time, and are suitable for measuring, reporting and verifying anthropogenic forest-related emissions [...], forest carbon stocks, and forest carbon stock and forest-area changes resulting from [REDD+ activities] consistent with guidance on MRV of NAMAs* [N.B.: Including as regards a potential national registry];
- *[…] Noting that significant pools and/or activities should not be excluded, developing country Parties, [in accordance with national circumstances and respective capabilities] [NFMS] should:*
    - *(a) Build upon existing systems, as appropriate;*

[1] High Forest cover Low Deforestation, Least Developed Countries, etc.

- *(b) Enable the assessment of different types of forest in the country, including natural forest, as defined by the Party;*
- *(c) Be flexible and allow for improvement;*
- *(d) Reflect, as appropriate, the phased-approach*

- *NFMS may provide, as appropriate, relevant information for national systems for the provision of information on how [REDD+ safeguards are addressed and respected;]*

Cost effectiveness, consistency with national REDD+ strategy and country capacity are key considerations: simplified yet conservative monitoring and reporting requirements, such as interim RL and proxies like Land Transition Matrices should be considered as the norm rather than the exception.

Non-carbon benefits should not necessarily be monitored but rather assessed by the country through **"policy triggers"**, defined as part of the national REDD+ strategy (*c.f.* Issue Papers 4 and 5). Where remote sensing cannot provide credible and verifiable indicators of change, participative monitoring should be explored: Pilot projects, which train communities to update land data[2], are currently testing smart phones software for simple data collection using GPS functions. Further spread of such technologies for forest and agriculture in forest margins could help improving governance, land tenure, fair benefit sharing, extension services, access to financing and the consultation of local populations[3].

Verification, as defined in IPCC context, is performed by countries and then can be checked by external reviewers*: "Verification activities should be integral part of the inventory process, [it] refers to the collection of activities and procedures conducted during the planning and development, or after completion of an inventory that can help to establish its reliability for the intended applications of the inventory. For the purposes of this guidance, verification refers specifically to those methods that are external to the inventory and apply independent data, including comparisons with inventory estimates made by other bodies or through alternative methods. Verification activities may be constituents of both QA and QC, depending on the methods used and the stage at which independent information is used"*[4]). The MF could therefore provide **operational principles for the review by a Technical Assessment Panel, not for verification itself**.

Issue Paper 4: Displacement of emissions (leakage); reversals; and sustainability of ER Programs.

Potential sources of leakage should be assessed in relation to corresponding drivers, as proposed by each Program, including within the region surrounding the Program area, at national and international levels.

We stress once again that it is incorrect and possibly confusing to mix permanence and reversals. Permanence is defined (by the IPCC) as "*the longevity of a carbon pool and the stability of its stocks, given the management and disturbance environment in which it occurs*[5]". Permanence can hardly be modified; it is an intrinsic, bio-physical characteristic of forest carbon pools relative to fossil carbon pools.

Reversals on the other hand can affect any emission reduction/removal once it has been credited, be it from the land, energy or industry sectors. What is not burned/harvested/planted/built this year can always be burned/harvested/planted/built the year after, and mitigation achievements foregone, but what matters is that bookkeeping and insurance systems reflect changes in net emissions, as seen by the atmosphere in a year, for the sake of environmental integrity.

[2] "ICT in Agriculture" report, World Bank Group, 2012

[3] "Maximizing Mobile" report, World Bank Group, 2012

[4] IPCC 2006 GL for LULUCF

[5] http://www.ipcc.ch/pdf/special-reports/spm/srl-en.pdf

Reversals could be handled via a common, pilot approach across the CF (*E.g.*, via a CF-wide pooled buffer, to spread the risk). The amount of VER to be buffered by a given ERP however remains to be defined and would obviously depend on **the risk profile considered** for the ERPA and **the duration for which VER should be guaranteed**, once credited. Given provisional results included in the WB assessment[6] for CDM, and the need for future REDD+ results to be guaranteed over the course of the century, throughout very uncertain climate pathways, and risks of large scale forest destruction[7], the Commission would recommend **very conservative buffering rates, that could decrease within a given range if and when the Country reaches and maintains pre-defined "policy triggers"** (*c.f.* Issue Paper 5) **that contribute to lasting mitigation impacts and increased resilience of forest ecosystems, i.e. using safeguard information as a risk mitigation strategy.** *E.g.*, the "Global Forest Expert Panels" under the Collaborative Partnership on Forests notes[8] that "*evidence suggests that the inclusion of socio-economic objectives up front will help ensure local involvement and acceptance, and therefore, increase the likelihood of achieving carbon and biodiversity goals and the sustainability of REDD+ activities"*. In addition, "*Biodiversity is a key determinant of forests' ability to effectively provide ecosystem services, notably carbon sequestration, and to remain resilient in the face of disturbances such as climate change"*, hence the link to reversals.

Issue Paper 5. Safeguards: WB safeguards, reporting on Cancun safeguards; feedback and grievance mechanisms.

Programs could readily use existing WB safeguards policies and instruments (e.g. SESA:Strategic Environmental and Social Assessment, or ESMF:Environmental and Social Management Framework), but strict consistency with the **Cancun safeguards** (including 2f and 2g, on reversals and leakage, as discussed in Issue Paper 4), **should remain the only reference**, so as to avoid a proliferation and duplication of reporting requirements, overburdening the national Safeguard Information Systems (SIS).

Addressing and respecting Cancun Safeguards is an absolute precondition to eligibility for performance-based payments under REDD+. However, over-performing on Cancun safeguards 2 a-e, or passing other policies and measures that pertain to deeper and more lasting mitigation impacts could be integrated into the CF incentive scheme through **reduced buffering requirements** (*c.f.* Issue Papers 4 and 6)**.**

Policy Triggers: For instance, country Forestalia could take up additional policies and measures, on top of addressing and respecting Cancun Safeguards, such as (for illustrative purposes):

(i) to pass a law promoting sustainable intensification of agriculture in forest margins,

(ii) to adopt a decree on extension services for fire prevention through prescribed burning in dry forest areas, and/or

(iii) to strengthen the national agency in charge of land tenure, with a view to have X% of land in forests and forest margins under documented tenure regimes, following Free Prior and Informed Consent of affected populations.

If and when these voluntary commitments are upheld, the country could reduce the share of VER to be buffered by 4 percentage points (indicative value) for each trigger, which means it could potentially increase by 3x4=12 percentage points (of total VER) the volume of VER it could sell to the CF:

[6] Addressing_Non-permanence_in_CDM_AR_Activities_Information_Note, World Bank Group, 2012

[7] *Turn Down the Heat: Why a 4°C Warmer World Must Be Avoided*, World Bank Group, 2012

[8] *Understanding Relationships between Biodiversity, Carbon, Forests and People: The Key to Achieving REDD+ Objectives. A global assessment report by IUFRO, 2012*

If Forestalia	Meets safeguards	… and trigger (i)	… and trigger (ii)	… and trigger (iii)
It should buffer	60% (indicative)	56% of VER	52% of VER	48% of VER
Therefore it can sell	40% of VER	44% of VER	48% of VER	52% of VER

The definition of such **"policy triggers"** would be up to the country's initiative, providing a concrete, predictable and voluntary way to incentivize more effective and sustainable REDD+ strategies, which could easily be reflected within the SIS. They would not be related to the pricing of VER by the CF but would nonetheless provide a comparable, step-wise, quantified indication on these qualitative achievements. The 60% and 4% indicative values would be set by science-based analysis.

Issue Paper 6: Benefit sharing mechanisms, including equitable distribution; carbon rights, land, and resources tenure; non-carbon benefits.

The "Global Forest Expert Panel" stresses that "*Reflecting the fact that costs and benefits are still typically framed in largely economic terms, [possible trade-offs between carbon, social and environmental objectives] are often managed through forms of compensation or benefit sharing for local people. This can be effective at reducing conflict, although the relatively wealthy are often found to benefit more than those who are poorer […]Whilst there is widespread appreciation of the difficulties of community forestry, it is equally recognised that it has the potential to resolve some of the problems associated with weak state governance of forests, namely* ***failures of enforcement, benefit sharing and livelihood protection****"*. Fair and effective distribution of REDD+ benefits should therefore be understood as progress in these three dimensions, noting that *"Although REDD+ may generate substantial positive impacts, it may also lead to changes in resource management and access that will disproportionately affect [poorest people]. These socio-economic impacts should be considered early on in REDD+ implementation"*. (*c.f.* Issue Papers 4 and 5)

Issue Paper 7: Structuring and financing ER-Programs, in the context of country development.

REDD+ aims at moving away from the CDM project-based approach towards approaches covering economy wide sectors, and at reducing gaps and leakages between them. All forest cover in a jurisdiction should be covered by ER Program, be it for RL, SIS or MRV purposes. Different activities could however generate different volumes of VER, for which different pricing logics and different buffering requirements could be proposed, as part of the contractual conditions of a given ERPA, depending on relevant drivers, permanence, additionality and uncertainties in RL or MRV for said activity. For instance, a HFLD[1] country could focus on degradation, and conservation, whereas a LFLD country could prioritize landscape restoration and the sustainable management of its forests and swiddens. The accuracy, baseline approach, and estimated durability achievable through these activities could justify a variety of incentive schemes, so to test a variety of contexts and maximize the learning value towards the full implementation of REDD+.

Relevant mitigation, adaptation, biodiversity, or development programs must be explicitly mentioned in the SIS (or SESA/ESMF), be it considered, planned or executed. By relevant, it is meant here "any policies and measures that could significantly affect the drivers, institutions, ecosystems or stakeholders involved in REDD+ implementation at the scale of the ERP". This effort in transparency should be matched by the clarity and predictability in the volume and price range of VER sold to the CF.

Advanced payments could be made but would have to be linked to concrete and targeted deliverables required to set up the ER program, implied costs would be recovered upon final payment.