Forest Carbon Partnership Facility

6b. Discussion of the Methodological Framework and Pricing and Valuation Approach for Carbon Fund

Eleventh Meeting of the Participants Committee (PC11)

Asuncion, Paraguay

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What Does the PC Need to Do Regarding Pricing and the Methodological Framework?

- FCPF Charter provides that the PC
  - "shall adopt policy guidance on pricing methodologies for Emissions Reductions Payment Agreements"
  - "shall…provide guiding principles on the key methodological framework."

What Is a Methodological Framework?

- UNFCCC will ultimately set methods for REDD+, but in the future.

- CDM, VCS and other existing methods are very complex.

- FCPF has used standards approach to assess R-PPs successfully.

- Thus a set of general principles -- and a way to measure performance against them -- is needed

- … to guide the development and assessment of ER Programs.

Why Does the Carbon Fund Need a Methodological Framework?

- **Principles for the Methodological Framework would allow:**
  - **Comparison across Emission Reductions (ER) Programs (large-scale activities proposed by the government or government-endorsed entity submitting an ER-PIN)**
  - **Consistency in determination of the quality of ERs expected from Programs**
  - **Guidance to REDD Country Participants in preparation of ER-PINs– what methods and issues to focus on, and what is expected by the CF.**

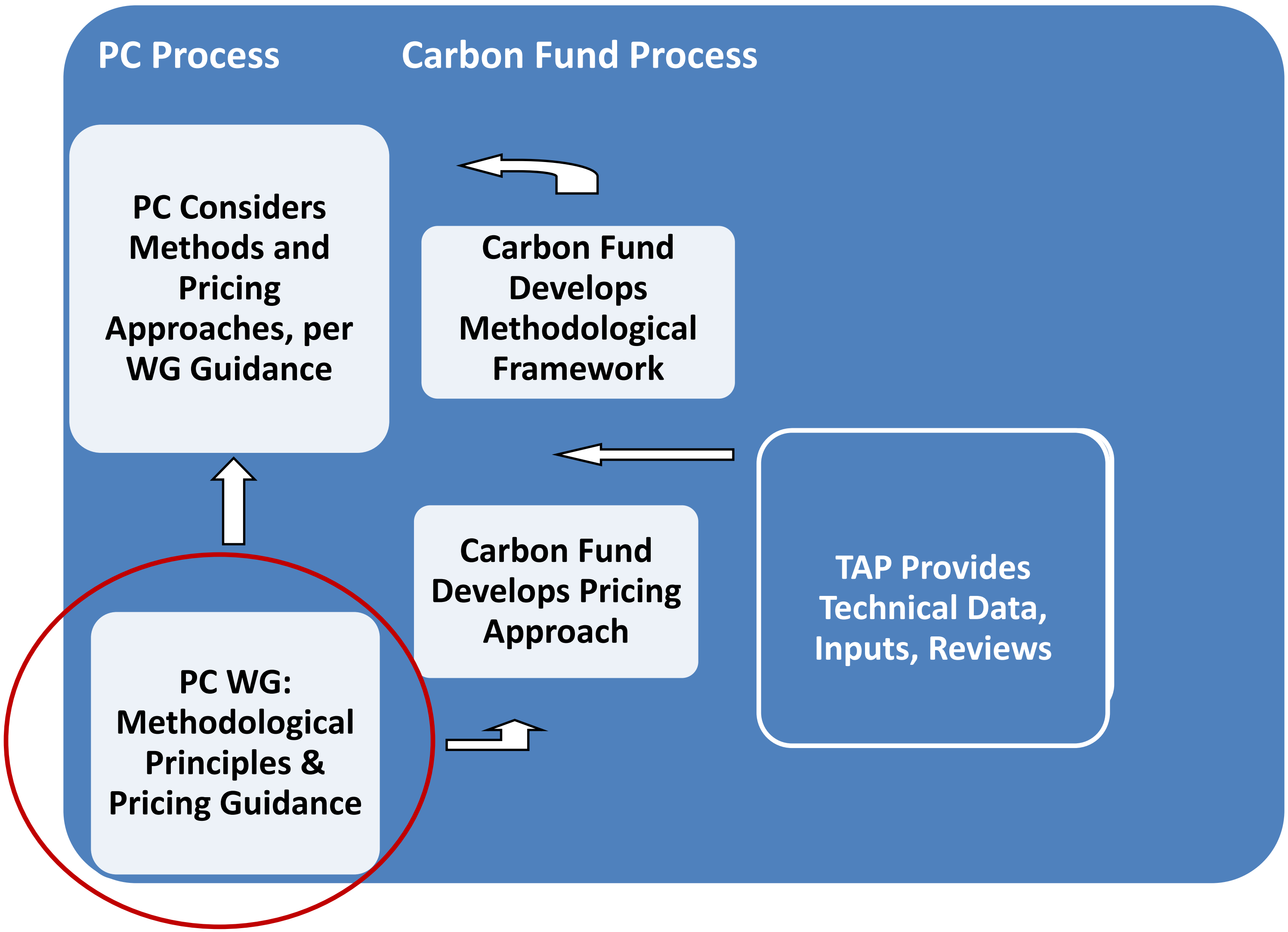
- **Some guidance is needed for CF to start the process of thinking though . . . and gradually building . . . the Methodological Framework, and the Pricing Approach (i.e., how prices will be determined).**

Guidance on Methodological Framework and Pricing

- Methodological Framework could address:
  - Carbon accounting;
  - Programmatic characteristics, including inherent social and environmental benefits; and
  - Any additional social and environmental benefits beyond carbon.
  - (World Bank safeguard policies are not part of this, as they have to be met by every ER Program.)

- Policy guidance on pricing could include:
  - Determining a fair value for ERs, given there are few precedents to draw from;
  - Determining a base price,
  - If there might be some variation or adjustment in the price based on quality of the ER Program attributes.

Potential Process for Development of Method. Framework and Pricing Approach for CF



Standard-Driven Approach for ERPs:

Principles → Standards → Indicators → Methods

- Principles, or Elements: State the desired outcome.
- Standards (or criteria): Identify the conditions that need to be met to deliver on a principle. The benchmark against which a program is evaluated.
- Indicators: Quantitative or qualitative parameters that can be achieved and can be verified -- the “metric’ for evaluating the standard.
- Methods: Agreed analytic approaches or tools used to generate the data and estimates of parameters (like forest cover change over time) that make up indicators.

Early Thinking on Methodological and Pricing Approach

Methodological Framework Principles

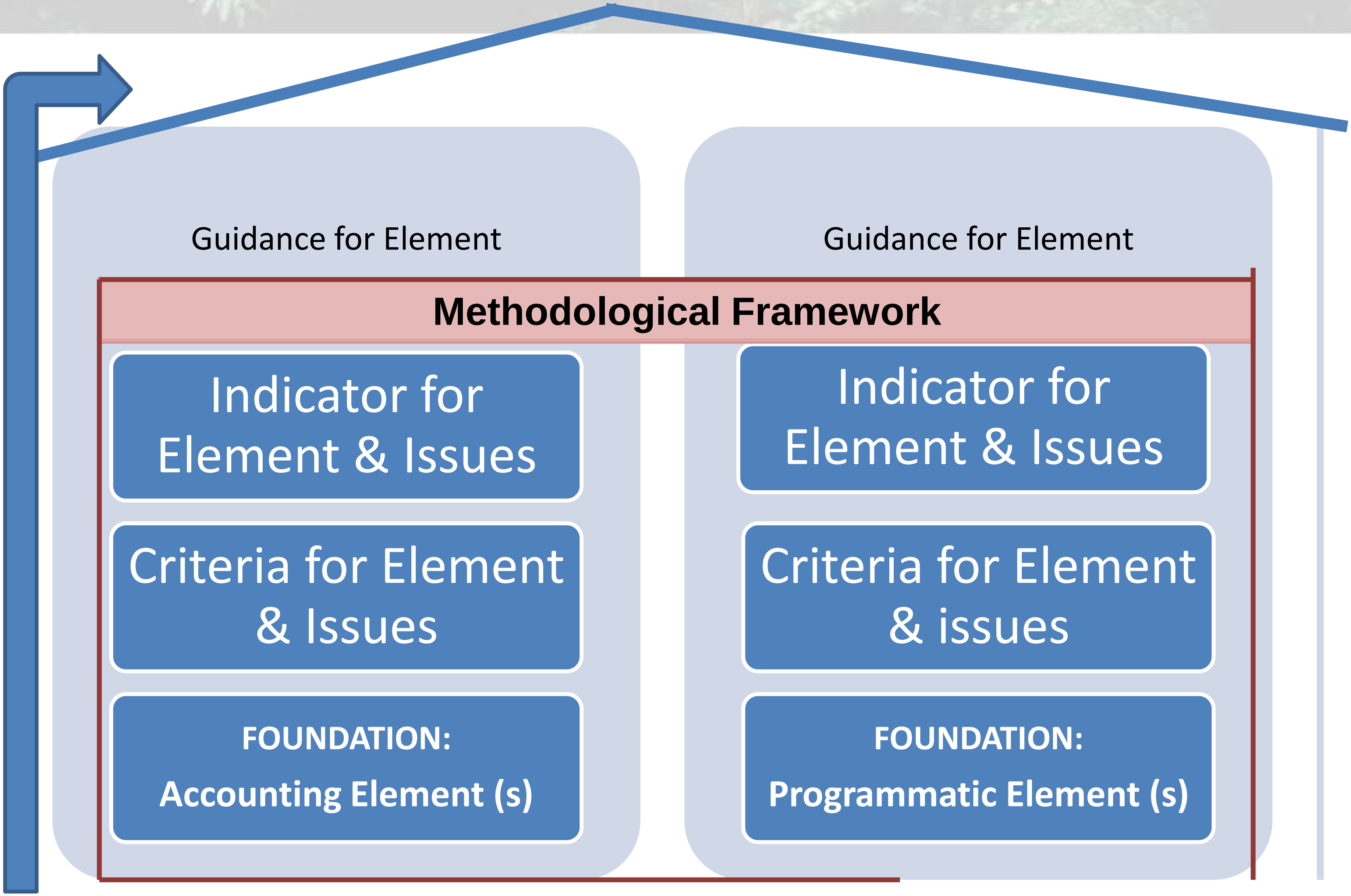
ER Accounting Elements + ER Programmatic Elements

Pass/Fail

Pricing

Base Price
(based on ER Program characteristics and allows for non-carbon benefits)

Early Ideas on Building a Method. Framework ?



Possible Steps in Building a Method. Framework ?

Step 1: Elements

Framing the Issues

- Identify key components
- Issues to address
- Capacities needed for an element

Draft Criteria

- Propose 1 or more criteria for an element

Draft Indicators, or Guidance for Them

- Draft 1 or more indicators for an element
- Or guidance for countries to develop own indictors

Draft Guidance for ERP Implementation of Element by Country in ERP

- Provide enough details re choices in data, methods, etc.
- Countries propose methods & choices in ERP

Periodic Inputs From Carbon Fund

Building a Framework?: Conceptual Example of an Element– e.g., Displacement of Emissions (leakage)

Step 1:
Element

- Displacement (leakage)

Framing the Issues:

- Define “assessment” of domestic & international displacement?
- Define “measures” to address displacement ?
- Review how existing UNFCCC & voluntary protocols address displacement

Draft Criteria:

- Propose 1 or more criteria of implementing displacement assessment & measures?

Draft Indicators,

or Guidance for Them:

- Draft indicator for “measures” ?
- Or: guidance for countries to develop own indicator?

Draft Guidance for ERP Implementation of Element by Country in ERP:

- Positive list of methods that meet criteria ?
- Countries propose methods & choices in ERP?

We Hope to Start Building the Foundation Soon. Comments Welcome

Photo by Rhett A. Butler: