Forest Carbon Partnership Facility

2c. Revisions to the FCPF Methodological Framework and Buffer Guidelines

Twenty-first Meeting of the Carbon Fund (CF21)
Paris, France
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1. Reasons for considering changes to the Methodological Framework

- **CORSIA**
  - At CF16, CF17 and CF18, the FMT presented on the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)
  - CFPs authorized the FMT to apply to be an emissions unit programme under CORSIA, while recognizing that such engagement is conditional on (i) the absence of any adverse impacts on the environmental integrity and high standards of FCPF emissions reduction programs; (ii) does not creates any nonvoluntary obligations on the behalf of REDD+ Countries; and (iii) does not pose a reputational risk.

1. Reasons for considering changes to the Methodological Framework (cont')

- **Potential FCPF ERs that would be available for CORSIA or other schemes**
  - Although most of the ERs generated by the 18 ER programs will be transferred to the Carbon Fund, Monte Carlo simulations presented during CF19 show that the total ER volume available to other buyers would be around 32 million ERs and up to 127 million ERs.
  - These ERs could be sold as FCPF ERs and their regulatory certainty should be ensured.

2. Progress on CORSIA application and identified issues with MF

- **Progress on CORSIA application**
  - The FMT applied to CORSIA in July 2019
  - Since then ICAO's Technical Advisory Body (TAB) has evaluated all the candidate emission unit programmes against CORSIA emission unit eligibility criteria, including the FCPF.
  - The TAB has highlighted a few areas where the FCPF may not meet the eligible units criteria, some of which have been rectified (eg. Verification Guidelines and Registry).
  - Other issues remain and it is not clear the significance that the TAB attaches to these.
  - These questions have also highlighted challenges for FCPF ERs to be used in other carbon markets, mostly related to reversal management mechanisms.

2. Progress on CORSIA application and identified issues with MF (cont')

Issues identified with the MF based on the feedback from the CORSIA TAB

Issues that require changes to MF
1. Reversal management mechanism: a) Use of other reversal management mechanism besides the CF Buffer during the FCPF Carbon Fund ERPA term b) Continuation of the reversal management mechanism after the FCPF Carbon Fund ERPA term; 2. Application of CF Buffer to all FCPF ERs generated under an ER Program during the ERPA term, not limited to FCPF ERs transferred to and paid for by the Carbon Fund (as Contract ERs and Additional ERs).

Expected actions at CF21

- In order to rectify the main pending weaknesses identified by the TAB, the FMT is proposing revisions to the Methodological Framework and the CF Buffer Guidelines.
- These revisions have been described in the FMT Note CF-2020-1
- During this meeting, the FMT seeks a decision from CFPs on the 'Issues that require changes to the MF'.

Issue 1a: Use of other reversal management mechanism besides the CF Buffer during the FCPF Carbon Fund ERPA term

Background of issue

- MF, Criterion 19, Indicator 19.1 requires the selection of a reversal management mechanism during the ERPA term:
  - Option 1, a mechanism that is substantially equivalent to the CF Buffer; and
  - Option 2, the CF Buffer
  - Out of the 18 ER Programs in the Carbon Fund portfolio, only one (DRC) has selected Option 1.

- As part of the CORSIA evaluation, the TAB has indicated that the lack of definition of 'substantially equivalent' could represent a risk regarding the permanence of issued FCPF ERs.

Proposed action

- Revision to the MF:
  - **Indicator 19.1**. Eliminate Option 1 and require all ER Programs use the CF Buffer during the ERPA term → This is de-facto the option selected by all ER Programs that have not yet signed an ERPA so this should not cause any disruption.

Issue 1 b: Continuation of the reversal management mechanism after the ERPA term

Background of issue

- The MF was designed with an expectation of one ERPA term of approximately 5 years and subsequent closure of the Carbon Fund.
- MF, Criterion 20, Indicator 20.1, requires ER Programs to put in place a robust RMM or another specified approach that addresses the risk of Reversals beyond the ERPA term ('Post-ERPA RMM') → None of the 18 ER Programs in the portfolio have yet proposed such Post-ERPA RMM.
- CORSIA TAB:
  - no definition of robust RRM and another specified approach → risk regarding the permanence of FCPF ERs.
  - lack of clarity on how the non-permanence risk of FCPF ERs will continue to be managed after the ERPA term → generates uncertainty to buyers that might be interested in acquiring FCPF ERs during or beyond the ERPA term.
- These issues impact the CORSIA eligibility of units and the REDD Country's ability to identify potential buyers other than the Carbon Fund

Proposed action

- Revision to the MF:
  - **Indicator 20.1**. To require ER Programs to have in place a robust Post-ERPA RMM that is equivalent to the CF Buffer. The definition of what is equivalent is provided in the Buffer Guidelines (see next slide).
  - **Indicator 20.2**. To avoid reference to the Options of Indicator 19.1 and keep the cancellation of credits as a measure in case no Post-ERPA RMM in accordance with Indicator 20.1 is established.
- Revision to Buffer Guidelines:
  - Changes to make the Buffer Guidelines consistent with the above changes.
  - To include conditions for the post-ERPA RMM in order to ensure that it is 'robust'.

Proposed action (cont')

- The Post-ERPA Reversal Management Mechanism is considered equivalent to the CF buffer (i.e. robust) if all the following conditions are met:
    1. It is a buffer;
    2. It covers the reversals of the units generated under the FCPF during the ERPA term;
    3. It allows the transfer of the Buffer ERs from the CF Buffer;
    4. The actual reversal risk set-aside percentage determined by the Post-ERPA Reversal Management Mechanism is equal to or higher than the actual reversal risk set-aside percentage of the CF Buffer
    5. It has in place a periodical monitoring and a third-party verification mechanism to confirm if there have been reversals and makes monitoring and verification reports publicly available;
    6. The Post-ERPA Reversal Management Mechanism is operational and able to address identified reversals;
    7. It is acceptable to relevant carbon markets or other schemes in cases where the ER Program wishes to meet those requirements

Issue 2: Application of CF Buffer to all FCPF ERs

Background of issue

- MF and BG (Section 4.6, 6.2, 6.3 and 9.4) require that Buffer ERs for reversal risk be calculated as a percentage from the amount of FCPF ERs transferred to and paid for by the Carbon Fund, namely Contract ERs and Additional ERs → <u>no need to set aside Buffer ERs for reversal risk for FCPF ERs other than Contract ERs and Additional ERs.</u>

- FCPF ERs sourced from these ER Programs (other than Contract ERs and Additional ERs)
  - not acceptable to third-party buyers and carbon markets as their reversal risk is not managed by the CF Buffer and, thereby, they are not fully compliant with the FCPF requirements.
  - Could be issued as 'FCPF credits' without being compliant with the FCPF requirements which would constitute a reputational risk for the FCPF Carbon Fund and for the World Bank.

Proposed action

- Revision to the MF and BG:
  - Replacement of the terms “Contract and Additional ERs” by “Emission Reductions”.

Discussion

- The FMT seeks a decision from CFPs on the proposed actions for the 'Issues that require changes to the MF'

Thank you!

Additional slide - TREES

- The REDD+ Environmental Excellency Standard (TREES) is a standard defined by the ART Program.

- It establishes the following reversal management mechanism:
  - Reversal is not related to “disturbances”
  - Buffer, 100% pooled, no conditions attached
  - **25% discount which can be reduced down to 10% if demonstrated mitigation factors are implemented (21% in average under CF)**
  - Buffer ERs are fully released if no reversals exist in 10 years of crediting period
  - **“Post-ERPA” → All buffer ERs cancelled once an ER Program leaves the GHG Program**