Crediting Period start date under the FCPF Program

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1 Objective of this note

Several REDD Countries have requested the possibility of generating pre-ERPA FCPF units (i.e. compliant with the FCPF Methodological Framework) resulting from the implementation of their ER Programs prior to the first Reporting Period under the Carbon Fund ERPA, and have requested to clarify the rules for the Crediting Period Start Date. Allowing REDD Countries to claim pre-ERPA FCPF units could enable REDD Countries to:

- Be rewarded for reducing emissions and enhancing removals by their ER Programs which are not covered currently by the ERPAs with the Carbon Fund;
- Use additional revenues to further invest in the implementation of mitigation measures that would generate further emission reductions;
- Obtain additional monetary benefits and leverage supplemental investments for their ER Programs through the possibility of providing FCPF units to interested buyers.
- Remove transactional costs in the generation of pre-ERPA Emission Reductions as REDD Countries would not have to go through preparation of design document, validation and verification through another certification standard.

Moreover, as a result of the CORSIA application and the interest from buyers for FCPF units, the FMT considers the need to define the crediting period start date univocally so as to provide regulatory certainty, but without necessarily affecting the crediting start date for ERPAs with the Carbon Fund.

In view of this, the FMT has prepared this FMT note that intends to address the above issues.

2 FCPF Requirements

According to the FCPF Glossary of Terms the Crediting Period Start Date "*is the start date of the first Reporting Period under the ER Program*". This is also known as 'ER Program Start Date' under the FCPF ERPA General Conditions, which defines it as "*the date on which the ER Program or ER Program Measure(s) (including any Sub-Project(s)) begins generating ERs contracted for under the ERPA*". Hence, based on this definition the start date of the Crediting Period, is equivalent to the start date of the first Reporting Period and it is the date on which the ER Program or/and associated Measure(s) begin generated ERs. If the definition of other Standards is followed this could represent the date in which the ER Program commences the implementation of ER Measures (UNFCCC CDM, VCS, ACR, GS), yet under the FCPF it was understood that this was the date of ERPA signature.

The FMT Note CFM-2019-3 provides additional conditions for setting this date. ER Programs have to comply with the requirements of the MF after this date, and it sets in paragraph 3 the following additional conditions:

1. Date no earlier than the date the ER Program has been selected into the Carbon Fund portfolio unconditionally or, in the case of provisional selection, after all conditions for selection have been met, and
2. and the implementation of at least one of the ER Program Measures has started.

While point 2 is in line with the definitions of ER Program start date under the FCPF and other Standards, point 1 adds a specific limitation, requiring Crediting Periods to start no earlier than the date of inclusion of the ER Program into the portfolio. The reason for this is that CFPs wanted to ensure that payments are made only for (retroactive) ERs that would not have been achieved without the ER Program, which is related to the concept of additionality.

It is not clear if these conditions were set in the context of FCPF units to be acquired as part of the ERPAs with the Carbon Fund or it considers FCPF units that would be sold elsewhere, as the FMT Note makes explicit reference to FCPF units sold under the ERPA with the Carbon Fund[1].

Hence, a Crediting Period Start Date under the FCPF cannot be earlier than the inclusion of the ER Program in the Portfolio.

3 Common practice under other Standards

A table summarizing the requirements related to crediting period and additionality of other international AFOLU Standards, including three for Jurisdictional REDD+, may be found in Annex.

Crediting Period Start Date definition: Most of the Standards (i.e. VCS JNR, VCS, ACR, GS, CDM) set the Starting Date of the Crediting Period as the date when the activities that lead to the generation of GHG benefits start, in A/R activities this would be for instance the date when the first planting began. On the other hand, TREES does not specify the date provided the Crediting Period does not overlap with the Reference Period while the California Tropical Forest Standard (CTFS) clarifies that this is the date when the Sector Plan (similar to a draft ER-PD) is completed by the Country. Implicitly or explicitly all Standards require that Standard requirements (e.g. Safeguards,…) are complied with for the whole duration of the Crediting Period.

Standards	Crediting Period Start Date
VCS JNR	Date in which program began generating GHG emission reductions or removals
VCS	Date in which project began generating GHG emission reductions or removals
ACR	Date in which project began implementing activities on the field
GS	Earliest date when the first trees are planted
CDM	Date in which project began implementing activities on the field
TREES	No definition. May not overlap with Reference period.
CFTS	Date when sector plan is completed
FCPF	Date in which implementation of at least one of the ER Program Measures has started.

Validation and registration cut-off dates: All Standards allow Crediting Periods that start earlier than the date of validation and registration but provide cut-off dates. Most Standards require that

[1] Example: Para. 1 *"…Potential payments for such ERs are subject to the General Conditions Applicable to ERPAs for FCPF ER Programs*."

validation is completed before a certain date from the Start date (e.g. VCS/VCS JNR 5 years, TREES 4 years, ACR 3 years, GS 2 years, CDM multiple options but there is no real limit) or do not require validation (i.e. California Tropical Forest Standard). This leaves the FCPF as the only Standard which requires validation (a.k.a. TAP assessment) and registration (a.k.a. inclusion in portfolio) before the Starting Date of the Crediting Period can occur.

Standards	**Years allowed before validation (years)**
VCS JNR	5
VCS	5
ACR	3
GS	2
CDM	No limit
TREES	4
CFTS	Not applicable as there is no validation.
FCPF	Not allowed. Only upon validation and registration

The reason for the flexibility in the years of retroactive issuance before programs/projects are validated/registered is normally because carbon standards understand that forestry-related activities have begun implementation well before the carbon-related documentation (e.g. capacity building for MRV, implementation of inventories) is prepared. Although the mitigation activities began at the project start date, the time gap between the start date and validation allows the proponents to prepare their projects/programs, socialize their objectives and continue working to enable the environment to reduce emissions.

Additionality. Additionality of Emission Reductions generated by projects is demonstrated using specific tools that were developed for this purpose. This diverges from Jurisdictional Programs where additionality of ERs generated under the Program is done by setting rigorous baselines that sets a conservative benchmark (i.e. TREES, VCS JNR). The California Tropical Forest Standard goes beyond and sets a 10% discount to the RL to ensure this is conservative. The FCPF is consistent in this regard and relies on conservative baselines to demonstrate additionality of Emission Reductions. However, the FCPF also requires that the start date is the date of inclusion of the ER Program in the portfolio, assuming that the ER Programs begin implementation on that date.

Standards	**Additionality**
VCS JNR	Conservative Baseline
VCS (project)	Use of additionality tool
ACR (project)	Exceed a performance standard/Additionality Tool
GS (project)	Use of additionality tool
CDM (project)	Use of additionality tool
TREES	Conservative Baseline
CFTS	Conservative Baseline
FCPF	Conservative Baseline. Only once it has been selected into the Carbon Fund portfolio unconditionally.

4 ER Program implementation

In many cases ER Programs have been in the process of implementation for several years before their inclusion in the portfolio. Investment activities cannot be designed and implemented from one day to the next and require several years for raising funding, concept design and implementation. ER Programs, after the approval of their ER-PINs and issuance of the LOIs demonstrated prior-consideration of carbon finance to proceed with their ER Programs and began the design of their ER-Programs aligning existing and new investments around a common mitigation strategy which was then described in their ER Program Documents. This process by itself created an enabling environment that facilitated the attraction of investment into ER Programs, served to align investment instruments under a common framework and attracted donor funding. These efforts have occurred in parallel with the process for preparation, assessment and approval of the ER-PDs. Efforts were made without taking into consideration any rules of crediting period start date, which was unclear at the time for Countries.

As a result, at the time of the submission of the draft ERPD, many ER Programs, if not all, were *de-facto* under implementation as explained in their ER-PDs, and this implementation was independent from the timeline for assessment, inclusion in the portfolio and ERPA signature (e.g. a few ER Programs took almost 1.5 years to complete their technical assessments).

One example of this is Mozambique. Shortly after the ER-PIN approval, Mozambique immediately began aligning investment instruments and began the design and implementation of several investments (e.g. MozFIP, MozBIO, Sustenta) which were incorporated into a draft ER-PD that was presented in February 2017. Mozambique decided unilaterally to stop the technical assessment so as to enable the integration of national data in their FREL which did not affect the ER Program implementation. This unilateral stop caused a delay of 6 months in the technical assessment process and as a result Mozambique presented the final ERPD in January 2018. By January 2018, Mozambique had already activities in place as described in its ER-PD and had an ER Program compliant with the MF.

5 Conclusion and proposals

The FCPF is the most stringent Standard in terms of Crediting Period Start Date. The FCPF justifies the use of this stringent date to demonstrate additionality, but this does not follow the logic of implementation of ER Programs (i.e. ER Programs do not begin implementation once selected into the portfolio), and it is not in line with other Standards. It is important to note that the date of inclusion into the portfolio is a subjective date which depends on many factors (e.g. delays with carbon accounting issues or consultants) which are not related to the actual ER Program implementation and prior consideration of carbon finance to proceed. This stringency is causing an impact on REDD Countries that are not able to generate ERs early on and meet expectations from communities and stakeholders, and this independence between the ER Program implementation process and the carbon finance process is recognized by the relevant Standards.

Carbon Fund Participants would have the following options for decision:

- **Option 1 – Start date back to date of presentation of Final ERPD** : The Crediting Period start date cannot be earlier than <u>the date REDD countries presented their final ERPD at the</u>

Carbon Fund Meeting and only if all other requirements set in the FMT Note 2019-3 (e.g. safeguards) are met since that date. In those cases where programs were approved conditionally, this would be conditional inclusion in the portfolio.

- **Option 2 – Start date back to ER Program Start Date:** This option would be aligned to other standards by requiring the Crediting Period Start Date to comply with the following criteria:

    1. It is the date on which the first ER Program Measure(s) (including any Sub-Project(s)) begins generating ERs, i.e. first implementation[2];
    2. It is justified with objective evidence by the ER Program Entity and it is independently assessed by a Validation Verification Body during Validation;
    3. It is not earlier than January 1st 2016[3];
    4. It does not fall within the Reference period;
    5. It is demonstrated that the ER Program complies with requirements since the start date on safeguards[4], carbon accounting and double counting as specified in the MF.

In addition, CFPs could decide that any ERs generated prior to the unconditional acceptance of the ER Program into the portfolio (Option 1 and 2) could either i) be potentially included in an ERPA with CFPs or ii) not be included in an ERPA with CFPs but be issued by the FCPF and be available to parties outside of the ERPAs with CFPs (for example to airlines under CORSIA).

It is important to note that the above options will not impact negatively the ongoing evaluation process with CORSIA as these changes will not contradict the information provided to CORSIA's TAB for its assessment and the FCPF MF will not be modified, but rather clarified, providing regulatory certainty.

[2] a) measures shall be described in the Final ERPD; b) activities may be on-the-ground interventions (e.g. planting) or enabling environment interventions (e.g. establishment of laws, policies or regulations) provided these target drivers of deforestation and forest degradation or enhance carbon stocks; c) the start date shall be justified with objective evidence on earliest date of implementation of measures. For on-the-ground interventions, evidence of implementation of activities includes invoices/receipts of purchase of machinery/tools for the preparation of the land and/or for the establishment of trees or agriculture intensification, labor contracts already executed that can clearly be associated with the implementation of the activities. For enabling environment, evidence of actual implementation of actions (e.g. approvals of a law, policy or regulation by itself is not acceptable, but the approval of regulations that cause the change) and with a clear link to addressing the driver of deforestation and forest degradation and promoting enhancement of carbon stocks.

[3] All ER-PINs were approved prior to this date. This ensures that crediting periods cannot exceed 10 years and the reference level is valid during this period.

[4] that the ER Program Measures generating the (retroactive) ERs were implemented in a manner consistent with the approved ESMF

6 Annex – Comparison between Standards

The following table shows the conditions required by different International standards of AFOLU projects and programs to approve ERs achieved before the formal "registration/acceptance" of the project/program based on the definition of the Project/Program Start date. As can be noted, all of the standards allow the generation of retroactive ERs as long as the specific timelines defined are complied with.

Standard	Project/Program Start date	Validation	Additionality
VCS (Jurisdictional)	Date on program began generating GHG emission reductions or removals.	Within **five** years of the program start date.	Rigorous and conservative baseline determination.
VCS	Date on which activities that led to the generation of GHG emission reductions or removals are implemented.	Within **five** years of the project start date.	Use the tool for demonstration of additionality.
TREES (Jurisdictional)	Up to **four calendar years** prior to the year the TREES Participant's submits the TREES **concept note**.	Within four years of the project start date.	Performance-based approach base on conservative historical baseline.
California Tropical Forest Standard (Jurisdictional)	The crediting period begins when a **sector plan** is completed.	Each project must undergo independent, third-party verification pursuant to the implementing jurisdiction's sector plan requirements.	Definition of a crediting baseline that begins at least 10% below the reference level and linearly declines to a jurisdictional-specific 2050 GHG emissions target for the forest sector.
American Carbon Registry (ACR)	Date in which the Project Proponent began the activity on project lands.	Within **three years of the project start date.**	**Option 1:** Exceed an approved performance standard, as defined in the applicable methodology, and a regulatory additionality test.

			Option 2: To pass a three-prong test of additionality.
Gold Standard (A/R)	The earliest date when the first trees are planted and up to three years from the date of project registration.	Within **two** years of the date of Listing.	Use either a UNFCCC-approved or a Gold Standard-approved additionality tool.
CDM (A/R)	Earliest date of actual implementation, i.e. site preparation.	Validation occurs once the PDD is complete and once a national approval is granted. No specific timeline for validation is included in the CDM guidelines.	Tool for demonstration of additionality.