Key Considerations for FCPF Carbon Fund Methodological Framework from REDD Design Forum #3
April 23 – 25, 2013 Washington, DC

Topics: Carbon Rights and Land Tenure, Non-Carbon Benefits, Financial Planning, and Registries

May 2013 by FMT

REDD+ Design Forum #3 was held to inform the development of the Methodological Framework (MF) of the FCPF Carbon Fund on the topics of Carbon Rights and Land Tenure, Non-Carbon Benefits, Financial Planning, and Registries. This brief overview of key issues focuses on some of the feedback, inputs, and views that relate specifically to drafting the Methodological Framework of the Carbon Fund.

I. CARBON RIGHTS IN THE CONTEXT OF AN ER PROGRAM FOR THE CARBON FUND OF FCPF

Over a full day was spent discussing the relationship of carbon rights and land tenure associated with an ER Program area to the Methodological Framework (MF) and to Carbon Fund transactions (which entail the transfer of verified Emissions Reductions (ERs)). For carbon rights, a candidate approach proposed how the MF could tackle this issue in a preparatory Issue Paper. The Forum evaluated the approach and identified follow-up items on both topics, with implications for further analysis.

Legal experts from the World Bank emphasized that the main role of carbon rights, in the context of the Carbon Fund, is to ensure that the Carbon Fund is buying verified ERs from someone who has the legal right to sell those ERs. Participants and World Bank staff also discussed that land tenure regimes in the ER Program area also have implications for carbon rights, especially if carbon rights are not specified in legislation.

- In this regard, participants discussed whether carbon rights and land tenure could be de-coupled, so that the "right" relates to carbon as something that is an asset and tradable. The decoupling is relevant because the Carbon Fund is only purchasing the Emission Reductions (ERs), and not engaging in land transactions.
- Decoupling carbon rights should be evaluated carefully in each ER district to avoid negative effects on local populations.
- Participants noted the vast variation among both carbon rights and land tenure regimes in different REDD+ countries. The law or other regulations might specify carbon in terms of environmental services, or the national law might not provide clear guidance on rights to ERs. This would likely be the case for many ER Programs.

Breakout groups also considered the concept of carbon rights as a right to <u>benefit</u> from the sale of carbon. This would be a way to link carbon rights, land tenure, and benefit sharing structures.

There was general agreement on the need understand the land tenure regimes in the ER Program area, so that the appropriate actors and beneficiaries can be involved in the program. There was also general agreement that further thinking is needed on how sellers could clarify carbon rights and ensure that those stakeholders with customary rights are included benefit sharing arrangements. Participants also discussed the potential utility of a land tenure analysis, decision tree or tool to help evaluate the current tenure systems in the proposed area and inform ER Program design.

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II. Non Carbon Benefits (NCB)

The Carbon Fund Participants have already decided that NCB should be monitored "as feasible" as stated in the ERPA term sheet and in the FCPF PC's guidance to the CF on development of the Methodological Framework. This means that the MF will not mandate a particular method of NCB tracking, measurement, or evaluation. In this context, the challenge for the MF becomes how to give support and nonbinding guidance to REDD+ countries in a way that will support them and incentivize them in realizing NCB. A candidate approach for NCB was presented in Issue Paper #12. Given the ground already set by the ERPA Term Sheet and CF discussions, certain approaches were not considered as options for the MF: 1) Any mandatory method for gathering and providing information on NCB, and 2) Bundling NCB into the ER price using a prescribed methodology across all ERPAs, or 3) A predetermined price premium for NCB.

Key Considerations outlined by the meeting included:

Non-Binding Guidance. There was general agreement that non-binding guidance could helpful in the form of a support tool or guidance developed or commissioned centrally by FMT. This could include a range of examples relevant to different types of ER Programs in promoting and tracking NCB.

Program priorities and goals for NCB. To add emphasis to NCB in program design, Sellers could articulate NCB priorities and non-binding goals in their ERPD (e.g., raise income level by x%). They could also describe their NCB goal identification process (e.g., stakeholder engagement in identifying NCB). Easy wins, such as choosing an area of high biodiversity, are important in the design stage prior to ER-Pin development.

Additional funders beyond CF. Identification of NCB is also important to increase the likelihood of attracting 3rd party funders (for example, a conservation NGO). By doing this, an ERP can increase the NCBs the program will provide by choosing its location strategically.

An array of methods for information gathering. Participants proposed methods such as proxy indicators, process-based tracking of activities to promote NCB, and participatory and community-based approaches. Discussions noted utilizing participatory processes for NCB identification and monitoring within the host country can help build engagement, ensure locally relevant information, and lessen the burden on government.

Distinguishing overlap between NCB, benefit sharing, and safeguards. Clarification might be helpful on the potential overlap between non-carbon benefits included in the Benefit Sharing Plan and Safeguard Plan. Identifying overlap could help promote synergies between the monitoring and reporting required on these Plans and providing information on NCB. Further clarifying the content of Safeguard and Benefits Sharing Plans is also important.

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III. Financial Planning

Financial planning is an issue where the Methodological Framework or other Carbon Fund guidance could provide a useful framework for an ER Program to plan for financial sustainability and potential multiple donors or markets or emission reductions generated. Participants discussed the importance of both operational and financial sustainability, with potential indicators for each, including types of analyses sellers could undertake to help them decide what to propose to the CF.

The FMT is considering developing criteria and indicators for the financial viability of ER -Programs submitted, to help guide REDD country proposal developers towards high-quality submissions to the CF.

Participants expressed general enthusiasm for a financial viability spreadsheet tool that ER Programs could use for planning purposes. Conservation International demonstrated a spreadsheet tool that incorporates deforestation data, carbon stocks, and price per ton for forest carbon projects. Each initiative would input its own data, but defaults are also provided.

- The tool would need adjustment and alteration to apply at a jurisdictional or larger scale. FMT proposes to support the development of the tool by CI to adapt it for use by CF ER-Programs.
- Developing country participants confirmed that capacity exists in their countries to use the tool, and further, such a visual tool would help align government and stakeholders on key decision points on the structure of proposed ER Programs.
- A tool also provides a consistent snapshot that could be useful to CF Participants in evaluating ERPDs quickly.
- Adding non-carbon benefits generated to the tool would make it more useful, and seems feasible, using simple proxies like number of hectares of intact, high canopy forest, etc. Attendees supported assessing if this could be easily added to the tool.

IV. Registries

A robust discussion was held on registries. A key distinction was made between: a) REDD+ project/program databases used for registering and reporting on REDD+ projects/programs implemented in countries, and b) Emission Reduction transaction registries used to handle the process of creating (i.e., issuing) ER units with unique serial numbers, and supporting the transfer of ER units between account holders within the registry and to other linked trading registries. Discussion indicated that the former is a priority for REDD+ countries at this stage, but that both elements were important for the operations of the CF.

Discussion on the ER transaction registry boiled down to several core decisions on behalf of the Seller and the CF: 1) whether Sellers prefer to build their own ER transaction registries, 2) whether they will use a central ER transaction registry, either provided by the WB or a third-party registry, 3) whether a mix of approaches is best suited to REDD country needs, and 4) whether the MF should set out any basic requirements for registries (e.g., criteria and indicators).

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Key takeaway messages included:

- REDD+ countries mentioned sovereignty concerns about registry issues, and their desire to manage national REDD+ projects/programs databases, noting many have work underway on such databases.
- At a minimum level, the CF should be able provide registry services for any seller that needs them, as it does for other transactions in the larger World Bank Carbon Finance Unit.
- The MF, at a minimum, also should ensure that any registry system created or used would prevent double-counting or double-claiming of emissions reductions.
- However, there may be Sellers that are more advanced, with multiple carbon transactions in multiple sectors (combining Low Emission Development Strategies, REDD+, etc.). These Sellers should also have flexibility to determine the type of registry system that meets their needs.
- More advanced needs could be a Seller country's registry, or using a third-party registry such as the VCS registry, with a "tag" to identify Carbon Fund transactions.
- The MF therefore should be compatible with and facilitate the options above.

Discussion also noted that registry requirements may be different depending on whether the ER will be in Tranche A or B of the CF. The home of the credit in the registry matters more if the Buyer is planning to sell the credit versus to retire it. Tranche A ERs may be better off in a registry that can easily link to other markets. Overall, the type of registry needed will depend on the specific context of each ER Program and Seller country, but the MF should have basic provisions on registries to ensure the integrity of the crediting and claiming of ERs.