

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

Draft Guidance on the FCPF Carbon Fund Methodological Framework

June 10, 2016

This note discusses topics related to the FCPF Carbon Fund Methodological Framework. It provides draft guidance on 3 issues and builds on previous discussions with Carbon Fund Participants and Carbon Fund Observers during two web-based discussions on April 19, 2016 and June 7, 2016, respectively. This note provides background information and suggests options for decision making.

Background on the FCPF Carbon Fund Methodological Framework and related guidance:

During the eighth meeting of the Carbon Fund (CF8), the Carbon Fund Participants (CFPs) adopted the FCPF Carbon Fund Methodological Framework ('Methodological Framework').

As part of the Resolution CFM/8/2013/1 that adopted the Methodological Framework, CFPs also agreed to review the Methodological Framework, after one year from the adoption of the Resolution or any other time period as may be agreed to by CFPs, to consider any relevant lessons learned from the application of the Methodological Framework by the ER Programs, and any relevant new guidance from UNFCCC negotiations on REDD+. If necessary, CFPs may consider modifying the relevant criteria and/or indicators of the Methodological Framework after this review, or at any later time as relevant. However, while the Carbon Fund encourages ER Programs to consider meeting such refinements on a voluntary basis, it will not require ER Programs, once an ERPA is signed, to meet new or revised criteria and indicators that may be subsequently approved by the CF.

The Methodological Framework also states that "additional operational information for ER Programs, including information on World Bank due diligence and operational polices, and non-binding good practice guidance, may be produced in separate documents to complement the Methodological Framework and shared to assist ER Programs in meeting the Framework's requirements. Good practice guidance may take the form of links to existing guidance, methods, and examples of practices by REDD+ countries, with some guidelines or decision support tools added where needed."

Options for CFPs to consider relevant lessons from the application of the Methodological Framework

Based on the background above, the following options are available to CFPs when considering relevant lessons from the application of the Methodological Framework:

- **Modifications of the Methodological Framework:** The Resolution that adopted the Methodological Framework foresees for CFPs "to consider any relevant lessons learned from the application of the Methodological Framework by ER Programs", and any relevant new guidance from the UNFCCC negotiations on REDD+. CFPs may then consider these lessons learned and, if found necessary, modify the relevant criteria and/or indicators of the Methodological Framework accordingly. This would be applicable to any necessary and well-justified modifications that supplement, change or deviate from

the current version of the Methodological Framework. Such modifications would need to be incorporated into a revised and consolidated new version of the Methodological Framework and agreed through a new Carbon Fund resolution. This revision and consolidation process would ensure that the Methodological Framework remains the key document for reference purposes (for example the ERPA General Conditions frequently refer to the Methodological Framework). CFPs have stated that such modifications to the Methodological Framework should take place in a systematic way, rather than on an ad hoc basis.

- **Guidance on the Methodological Framework:** If the lessons learned show that there are issues that require further clarification of existing criteria and indicators without changing them, clarification could be provided as ‘guidance on the Methodological Framework’ that simply clarifies or further specifies certain issues. In this case, the introduction of the Methodological Framework foresees the use of “separate documents” to cover “additional operational information” and “non-binding good practice guidance” which would be intended to “complement” the Methodological Framework and be shared to “assist ER Programs to meet Methodological Framework requirements”. CFPs have agreed that such clarifications/specifications should be captured in the Carbon Fund’s Chair Summary and separate guidance documents. The FCPF Facility Management Team (FMT) will create a guidance section on the FCPF website, containing a series of such guidance documents (no.1, no.2 etc.) as they are developed and endorsed by CFPs from time to time. For guidance that is developed and endorsed in-between Carbon Fund meetings (in accordance with the process agreed at CF13), the guidance document will be added to the FCPF website as well.

Draft guidance on issues being discussed

Based on lessons learned from the ER-PDs that have been submitted or are being developed, the FMT has identified the following three common issues for consideration by CFPs:

1. Revisions of the Reference Level during the Term of the ERPA
2. The use of interpolation to estimate data for the Reference Period of an ER Program
3. The long and increasing time gap between the end of the Reference Period and the start of the Term of the ERPA

This section provides draft guidance on each of these issues. For each issue, a short background description is provided, together with the applicable criteria and/or indicators of the Methodological Framework and the type of decision requested by CFPs.

Issue 1: Revision of the Reference Level

Background:

In the Methodological Framework, there is no requirement that the Reference Level of ER Programs would need to be revised during the Term of an Emission Reduction Payment Agreement (ERPA). However, there might be circumstances where the ER Program itself would like to update their Reference Level. These circumstances may either arise from (i) improved data availability and quality in the future or (ii) from a phased approach to FREL design for countries’ submission to the UNFCCC.

Applicable criteria and/or indicators of the Methodological Framework

- Criterion 3: The ER Program can choose which sources and sinks associated with any of the REDD+ Activities will be accounted for, measured, and reported, and included in the ER Program Reference Level. At a minimum, ER Programs must account for emissions from deforestation. Emissions from forest degradation also should be accounted for where such emissions are significant.
- Criterion 4: The ER Program should account for, measure, and report, and include in the ER Program Reference Level, significant Carbon Pools and greenhouse gases, except where their exclusion would underestimate total emission reductions.
- Criterion 10: The development of the Reference Level is informed by the development of a Forest Reference Emission Level or Forest Reference Level for the UNFCCC.

Decision requested from CFPs:

CFPs could consider to provide the following guidance that would be captured in the Carbon Fund's Chair Summary and posted on the FCPF website as a separate guidance document:

Recognizing Criteria 3 and 4 of the Methodological Framework and rules provided in the FCPF ER Program Buffer Guidelines on the operation of the Uncertainty Buffer, CFPs clarify the following:

In line with the UNFCCC guidance on REDD+, CFPs recognize the need for continuous improvements of the Reference Level. The Reference Level may therefore be updated during the Term of the ERPA to incorporate improved data and methodologies, subject to the following guidance.

Updates to Activity Data and Emission Factors that improve accuracy and quality of the Reference Level

Updates to the Reference Level may include changes to Activity Data and Emission Factors resulting from improved data and methodologies that increase accuracy and quality of emissions estimates.

Incorporating changes to Activity Data and Emission Factors is only allowed as long as this does not compromise the consistency of emissions estimates for the Reference Period and program implementation phase (Indicator 14.1 of the Methodological Framework¹).

Any changes in the Reference Level motivated by improved capability to estimate Activity Data and Emission Factors, shall also be used to update estimates of emission reductions for prior Reporting Periods. If these updates lead to higher or lower estimates of Emission Reduction for prior Reporting Periods, the Uncertainty Buffer shall be adjusted in accordance with the relevant section of the FCPF ER Program Buffer Guidelines.

¹ Indicator 14.1 stipulates that ER Program monitors emissions by sources and removals by sinks included in the ER Program's scope (Indicator 3.1) using the same methods or demonstrably equivalent methods to those used to set the Reference Level.

Updates to include additional Carbon Pools or greenhouse gases to improve accuracy and completeness of the Reference Level

In accordance with Criterion 4, Carbon Pools and greenhouse gases can be excluded if they are not significant or where their exclusion would underestimate total emission reductions.

ER Programs can, based on improved data and methodologies, propose updates to the Reference Level to include additional Carbon Pools or greenhouse gases that were previously not considered to improve the accuracy and completeness of emissions estimates if:

- *The use of improved data and methodologies has shown that Carbon Pools or greenhouse gases that were previously considered as ‘not significant’ are instead ‘significant’; or*
- *The use of improved data and methodologies allows for cost-effective estimates of Carbon Pools or greenhouse gases that were previously excluded and where it was demonstrated that excluding such Carbon Pools and greenhouse gases would be conservative and underestimate total emission reductions.*

If updates to the Reference Level include additional Carbon Pools or greenhouse gases that were previously excluded because it would be conservative and underestimate total emission reductions, the ER Program Entity shall demonstrate this inclusion is indeed the consequence of improved data and methodologies and has not resulted in significant changes in the design of the ER Program.

Incorporating additional Carbon Pools or greenhouse gases is only allowed as long as this does not compromise the consistency of emissions estimates for the Reference Period and program implementation phase (Indicator 14.1 of the Methodological Framework²).

Changes in the Reference Level resulting from including additional Carbon Pools or greenhouse gases, shall only be applied to calculate Emission Reductions in the current and future Reporting Period(s).

Proposed updates that change the REDD+ Activities associated with the Reference Level

In accordance with Criterion 3, an ER Program can choose which sources and sinks associated with any of the REDD+ Activities will be accounted for, measured, and reported, and included in the ER Program Reference Level. At a minimum, ER Programs must account for emissions from deforestation. Emissions from forest degradation also should be accounted for where such emissions are significant. As part of the availability of better data, ER Programs might want to revise the Reference Level to include REDD+ Activities that were previously not selected (for example to include certain enhancement activities). This would also mean that extra ER Program Measures would need to be included in the ER Program to reduce emissions from these pools compared to the Reference Level. Carbon Fund Participants clarify that inclusion of additional REDD+ Activities in the Reference Level is not allowed.

Changes to Reference Levels that have been adjusted upward in accordance with Indicator 13.3

The guidance above also applies to ER Programs which Reference Level is adjusted upward by a limited amount above average annual historical emissions in accordance with Criterion 13. In those cases the following shall apply:

² Indicator 14.1 stipulates that ER Program monitors emissions by sources and removals by sinks included in the ER Program’s scope (Indicator 3.1) using the same methods or demonstrably equivalent methods to those used to set the Reference Level.

- *As part of the proposed revision, it shall be shown that the ER Program still meets the eligibility requirements in Indicator 13.2;*
- *The proposed adjustment still meets the threshold indicated in Indicator 13.4 based on a calculation of Carbon Stocks using the improved data and methodologies;*
- *The revised Reference Level should not exceed the original Reference Level without a credible justification following Indicator 13.3*

Process for updating the Reference Level

CFPs clarify that updates to the Reference Level can be submitted at the end of each Reporting Period³ and are subject to Verification⁴. CFPs request the FMT to include this in the Process Guidelines for the Carbon Fund.

Issue 2: Guidance on the use of interpolation of data in relation to the Reference Period of an ER program

Background:

Many countries periodically collect data on their forest resources, e.g. through the country's satellite-based forest monitoring system or forest inventories (frequently supported by development partners). Such efforts provide updated information on changes in forests (activity data) as well as their carbon properties (emission factors). However, such observations may not coincide with the years stipulated for the end-date of the reference period in the Methodological Framework (Indicator 11.1: the end-date for the Reference Period is the most recent date prior to 2013 for which forest-cover data is available. An alternative end-date could be allowed only with convincing justification).

Applicable criteria and/or indicators of the Methodological Framework

- Indicator 11.1 requires that the end-date for the Reference Period is the most recent date prior to 2013 for which forest-cover data is available to enable IPCC Approach 3.
- Indicator 11.2 requires that the start-date for the Reference Period is about 10 years before the end-date. An alternative start-date could be allowed only with convincing justification as in Indicator 11.1, and is not more than 15 years before the end-date
- Indicator 13.1 requires that the Reference Level does not exceed the average annual historical emissions over the Reference Period, unless the ER Program meets the eligibility requirements in Indicator 13.2.

Decision requested from CFPs:

CFPs could consider to provide the following guidance that would be captured in the Carbon Fund's Chair Summary and posted on the FCPF website as a separate guidance document:

Recognizing Indicators 11.1, 11.2 and 13.1 of the Methodological Framework, CFPs clarify the following:

³ As defined in the General Conditions Applicable to ERPAs for FCPF Emission Reductions Programs

⁴ As defined in the General Conditions Applicable to ERPAs for FCPF Emission Reductions Programs

ER Programs may estimate activity data or emission factors by interpolation of estimates made before and/or after the required start and end-date of the Reference Period assuming a linear progression of forest gain or loss (e.g. forest areas or forest carbon densities in 2012 may be derived as the mid-point between estimates for 2010 and 2014). For estimates made after the end-date of the Reference Period, it shall be ensured that these estimates occur before the Term of the ERPA.

If interpolation is used the following requirements shall be met:

- *The effect of such an interpolation on the Reference Level shall be clearly documented;*
- *It shall be also justified, using secondary data, that the interpolation period does not include any unusual and significant forest loss in terms of forest area or forest carbon emissions and therefore that such interpolation does not lead to an increase in the uncertainty of activity data or emission factors;*
- *It shall be demonstrated that methods to estimate emissions outside the Reference Period are consistent with the methods used to estimate emissions within the Reference Period.*

Issue 3: Long and increasing time gap between the end of Reference Period and start of ERPA Term

Background:

To determine the rate of emissions during any period, at least two estimates of forest area (for deforestation) and quality (for degradation) are required. The difference between the two estimates determines the rate of loss/gain or degradation/enhancement, respectively (Activity Data).

The Methodological Framework requires that Activity Data are estimated at least twice during the Term of the ERPA (Indicator 14.2). The first determination of the Activity Data is done by comparing an estimate of the forest area and/or quality during the Term of the ERPA (for example in year 3 of the Term of the ERPA) with an earlier estimate to determine change in forest area and/or quality and to estimate a rate of emission for the first portion of the ERPA. The second estimate of Activity Data uses the previous (first) estimate of the forest area and/or quality as a reference point to estimate emissions during the second portion of the ERPA.

The Methodological Framework is not specific regarding a date for an earlier estimate of forest area and quality to estimate Activity Data for the first time. In practice, ER Programs could use either (1) the forest area at the end of the Reference Period (which is required to estimate Reference Level emissions), (2) the forest area at the beginning of the ERPA, or (3) the forest area at some point in time during the interim period. The choice of one of these options can have a significant impact on the estimated rate of emissions during the ERPA, especially if significant changes in forest cover (gain or loss) and quality (enhancement or degradation) have occurred during the interim period between the Reference Period and the start of the Term of the ERPA.

Applicable criteria and/or indicators of the Methodological Framework

- Indicator 10.1: The Reference Level is expressed in tonnes of carbon dioxide equivalent per year
- Indicator 11.1: The end-date for the Reference Period is the most recent date prior to 2013 for which forest-cover data is available to enable IPCC Approach 3. An alternative end-date could be allowed only with convincing justification, e.g., to maintain consistency of dates with a Forest Reference Emission

Level or Forest Reference Level, other relevant REDD+ programs, national communications, national ER program or climate change strategy

- Indicator 14.2: Activity data are determined periodically, at least twice during the Term of the ERPA, and allow for ERs to be estimated from the beginning of the Term of the ERPA. Deforestation is determined using IPCC Approach 3. Other sinks and sources such as degradation may be determined using indirect methods such as survey data, proxies derived from landscape ecology, or statistical data on timber harvesting and regrowth if no direct methods are available.

Decision requested from CFPs:

CFPs could consider to provide the following guidance that would be captured in the Carbon Fund’s Chair Summary and posted on the FCPD website as a separate guidance document:

Recognizing Indicators 10.1, 11.1 and 14.2 of the Methodological Framework, CFPs clarify the following:

In relation to Indicator 11.1 of the Methodological Framework, where the indicator reads that “ An alternative end-date could be allowed only with convincing justification”, such convincing justification may include the availability of forest-cover data to enable IPCC Approach 3 that is dated less than three years prior to start of the Term of the ERPA. In this case, where Indicator 14.2 of the Methodological Framework reads that “Activity data are determined periodically, at least twice during the Term of the ERPA, and allow for emission reductions to be estimated from the beginning of the Term of the ERPA”, the ER Program shall estimate Activity Data for the first Reporting Period⁵ based on a forest map that is derived from data corresponding to the end of the Reference Period.

For ER Programs that do not propose an alternative end-date or provide justification for an end-date that is more than three years prior to start of the Term of the ERPA, these ER Programs shall estimate Activity Data for the first Reporting Period⁶ based on a forest map that is derived from data corresponding to a period of less than three years prior to start of the Term of the ERPA.

⁵ As defined in the General Conditions Applicable to ERPAs for FCPF Emission Reductions Programs

⁶ As defined in the General Conditions Applicable to ERPAs for FCPF Emission Reductions Programs