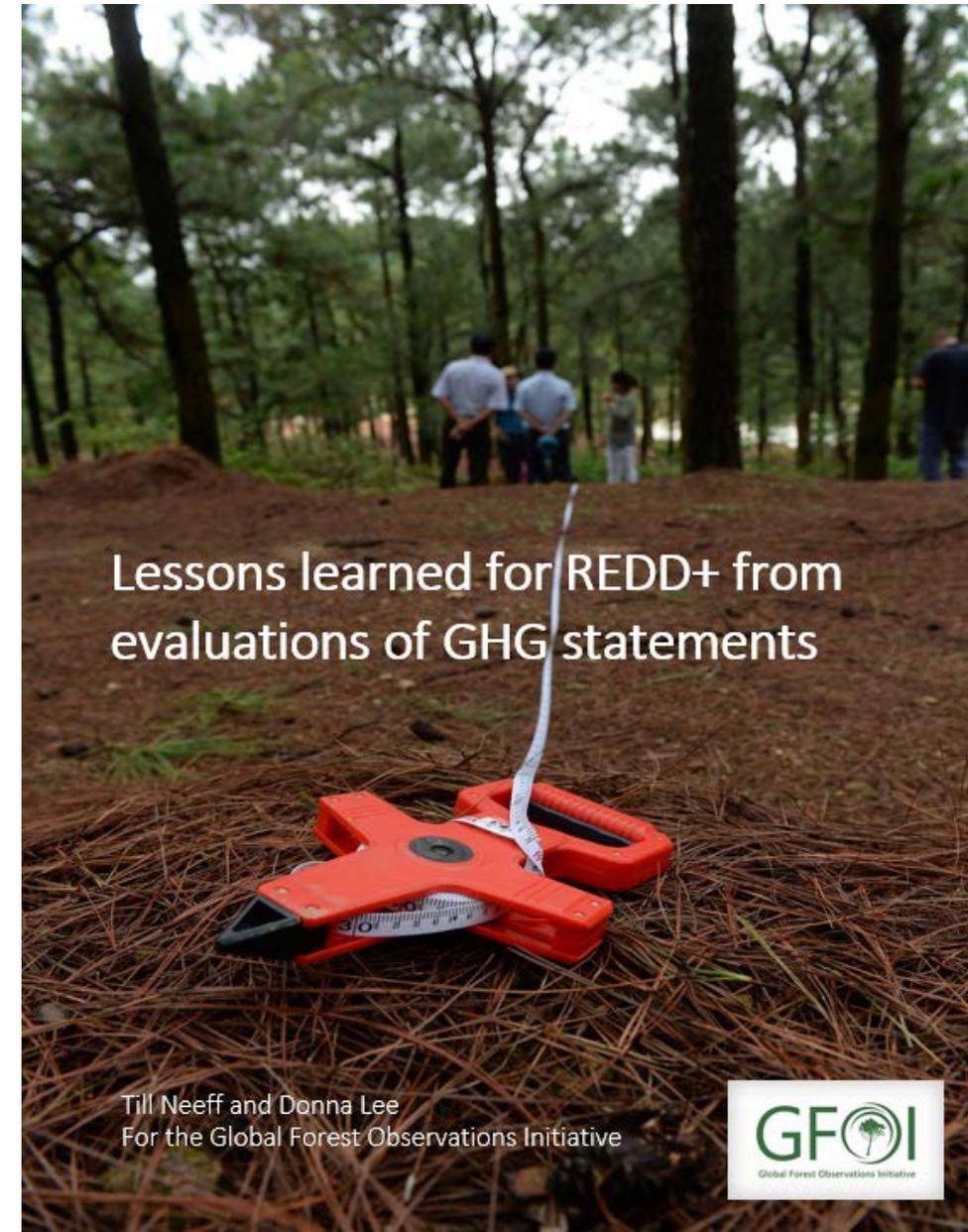


# Applying lessons learned from GHG evaluations to the Carbon Fund TAP and ER verification

Carbon Fund Meeting, Paris  
February 1, 2018



Report and presentation supported by the  
Global Forest Observations Initiative



# Outline

- Overview of the GFOI study
- The TAP assessment
  - Key issues regarding the TAP process
  - Lessons from other evaluation schemes
- The ER verification
  - ER verification and features of 'auditing approaches'
  - Examples for CFP consideration
- Concluding thoughts on trade-offs in designing evaluations

# The GFOI study on GHG evaluations

- Different objectives of evaluations
- Common elements of evaluation procedures
- Different evaluation approaches
- Profile of the evaluators
- Lessons learned
  - What type of evaluations lead to stronger assurances of GHG statements?
  - What type of evaluations lead to stronger capacity building?
  - Final considerations for the future

REDD+ UNFCCC

FCPF Carbon  
Fund

Colombia REDD+  
Early Movers

GCF REDD+ RBP

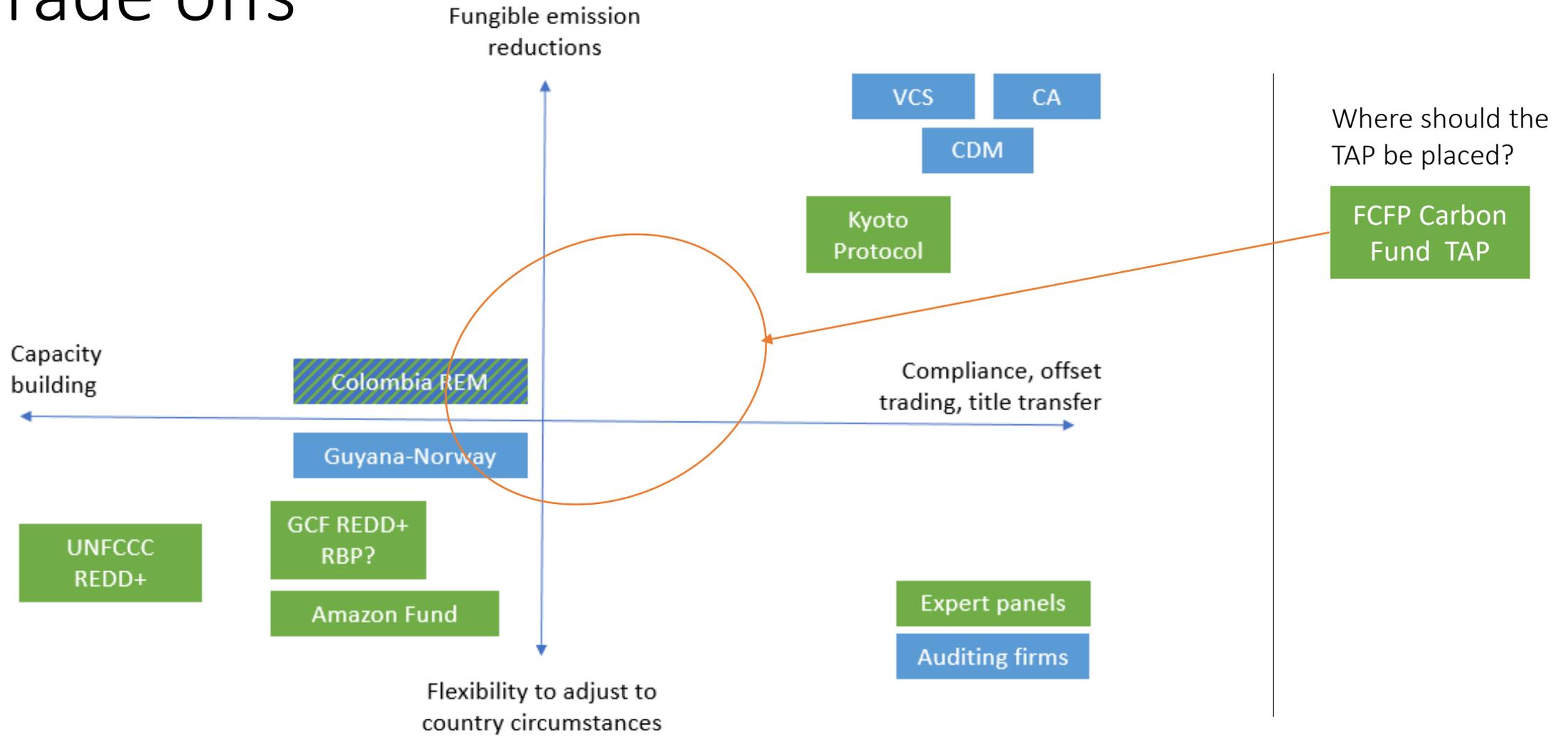
Norway-Guyana  
bilateral

Amazon  
Fund

VCS, CDM,  
CA offset  
program

Kyoto  
Protocol

# Trade offs



# The TAP assessment and key issues

- 1. Mandate of the TAP:** Need for greater clarity on the role of the TAP -- advisor or validator?
- 2. Evaluation consistency:** Across countries, there is notable variability in TAP expertise, comprehensiveness of assessment reports, evaluation methods, stringency of judgments, engagement of the FMT
- 3. Interpreting the MF:** Differences in understanding of certain criteria across TAPs
- 4. Independence:** Some TAPs are perceived to be overly lenient, potentially due to conflicts of interest

## 1. Mandate of the TAP

**Our interviews suggest the role of a TAP member is not always clear—some see the mandate strictly as an assessment (i.e. validation of the ERPD), while others perceive an opportunity to provide advice for capacity building.**

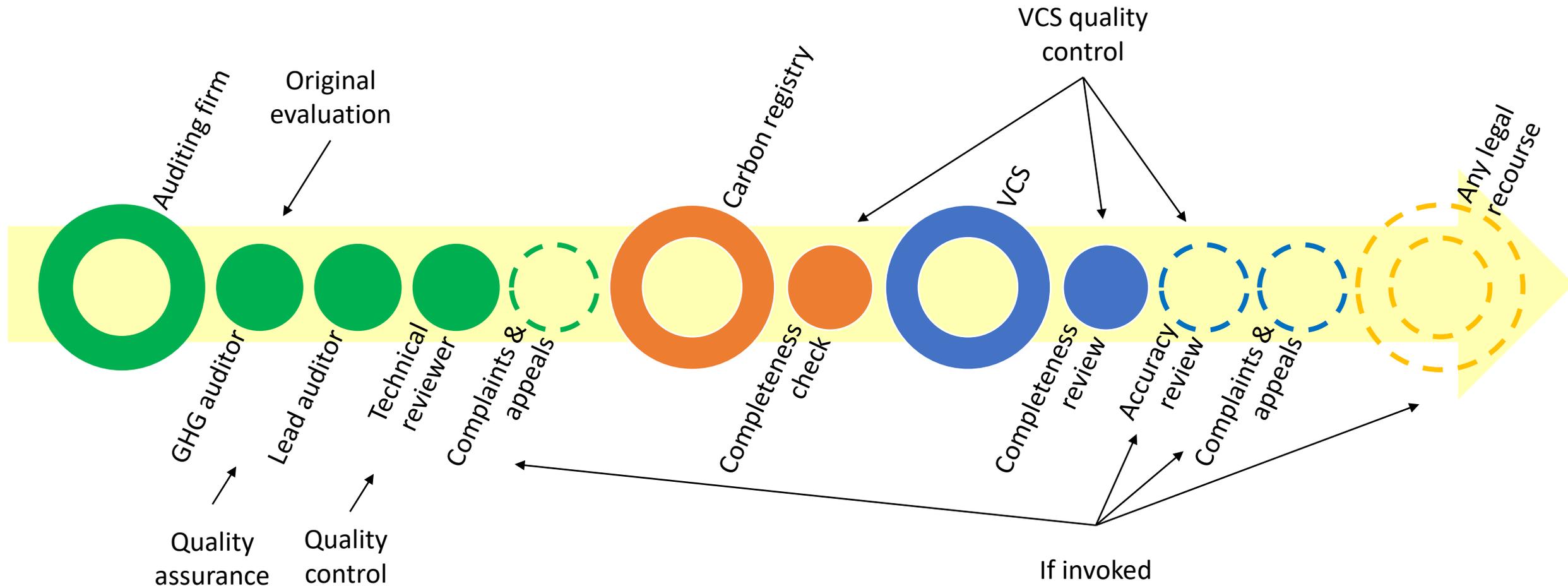
- Some TAP reports provide technical recommendations for countries to improve ERPDs, others do not
- In some contexts, in particular offsetting schemes (e.g. CDM, VCS, etc.), auditing firms find providing technical recommendation to compromise their impartiality
- However, verifications of the Guyana-Norway bilateral includes technical recommendations that have, reportedly, been very successful in building capacity
- The MF does not focus on indicators on institutional arrangements or GHG management systems that would be key for capacity building

## 2. Evaluation consistency

Why is there inconsistency?	Examples on how other schemes manage consistency
<p>Low level of guidance on estimating Emission Reductions; unclear expectation on extent to which IPCC guidance must be followed</p>	<ul style="list-style-type: none"> <li>• Methodologies that are considerably more detailed than the MF and often specific to project types</li> <li>• Detailed protocols/guidance for the forest/land sector, e.g.:               <ul style="list-style-type: none"> <li>- CA offset program - <i>Compliance Offset Protocol U.S. Forest Projects</i></li> <li>- VCS - <i>AFOLU Requirements</i></li> </ul> </li> </ul>
<p>No formal guidance on how to conduct the evaluation itself</p>	<ul style="list-style-type: none"> <li>• Follow ISO standard, plus detailed evaluation guidance:               <ul style="list-style-type: none"> <li>- CA offset program - <i>Technical Guidance for Offset Verifiers</i></li> <li>- VCS - <i>JNR Validation and Verification Process</i></li> <li>- <i>CDM validation and verification standard for project (or program of) activities</i></li> </ul> </li> </ul>
<p>No formal QA/QC procedures in place, dependent on TAP team leader and informal management by FMT</p>	<ul style="list-style-type: none"> <li>• Auditing companies have QA/QC procedures in place (compared to expert-led panels which require alternative arrangements)</li> <li>• Most standards impose additional quality control, e.g. checking auditing reports</li> </ul>
<p>Experts hired for the TAP may not have the full set of technical and/or evaluation skills needed</p>	<ul style="list-style-type: none"> <li>• Accreditation helps to ensure auditing teams have the right skills; often proof of experience and/or tests are required</li> <li>• Auditing companies have a range of skills and, when hired, ensure that the auditing team includes qualifications for areas of highest risk</li> </ul>

## 2. Evaluation consistency

Example: Quality management under the VCS



### 3. Interpreting the Methodological Framework

Why are difficulties in interpreting the Methodological Framework? Comparison against guidance in other contexts.

	Carbon Fund MF	Kyoto Protocol guidance	Carbon crediting standards
Eligibility	REDD+ programs ( <b>medium</b> )	All GHG sources and sinks ( <b>broad</b> )	Specific project types ( <b>narrow</b> )
Guidance for GHG estimation	ER Programs propose own data and protocols for GHG measurement, mostly in line with IPCC ( <b>flexible</b> )	Countries propose own data and protocols for GHG measurement, fully in line with IPCC ( <b>medium</b> )	Detailed protocols for measuring ERs in so-called methodologies ( <b>stringent</b> )
Guidance on baselines or reference levels	Flexibility on reference period and adjustment for HFLD ( <b>medium</b> )	Negotiated ( <b>stringent</b> )	Detailed protocols for baseline setting ( <b>stringent</b> )
Origins of guidance	Negotiated MF, IPCC guidance but has gaps and not fully implemented ( <b>some ambiguities</b> )	Negotiated baselines, IPCC guidance fully implemented ( <b>technical</b> )	Developed by technical experts ( <b>technical</b> )
Dependence on professional judgement	<b>High</b>	<b>Medium</b>	<b>Low</b>

## 4. Independence of the TAP

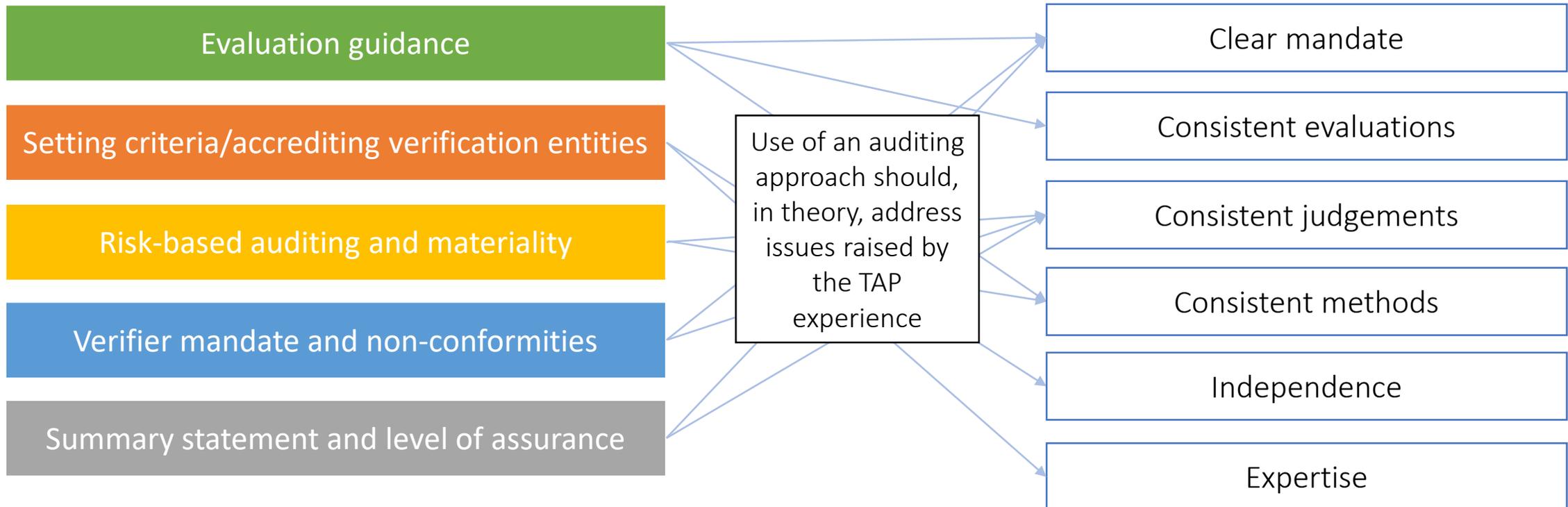
How independent is the TAP? And how carbon crediting standards manage conflicts of interest?

	Carbon Fund TAP	Approaches of carbon crediting standards
Choosing evaluators	Unclear process of contracting experts for the TAP	Accreditation procedures and requirements
Managing conflicts of interest	No formal process or rules to evaluate and avoid conflicts of interest  (For example, TAP experts sometimes work for the country before and/or after the Carbon Fund TAP process)	Rules set regarding conflicts of interest  (For example, CARB monitors services provided by the verification body and its staff for 5 years prior and 1 year after the verification)
Management of overall program or project cycle	FMT informally manages the TAP process, and also advises countries in ER program development	Auditing firms strictly not involved in advising countries on ER program development (neutral 3 <sup>rd</sup> party)
Role of advisor or evaluator	Lack of clarity among TAP experts on their mandate; some provide recommendations	Providing advice is seen as compromising the impartiality in the evaluation

# Carbon Fund ER Verifications: Use an “auditing approach”

CF16 suggested that CFPs want to use an “auditing approach”... but what does that mean?

Issues raised on the TAP process that are relevant:



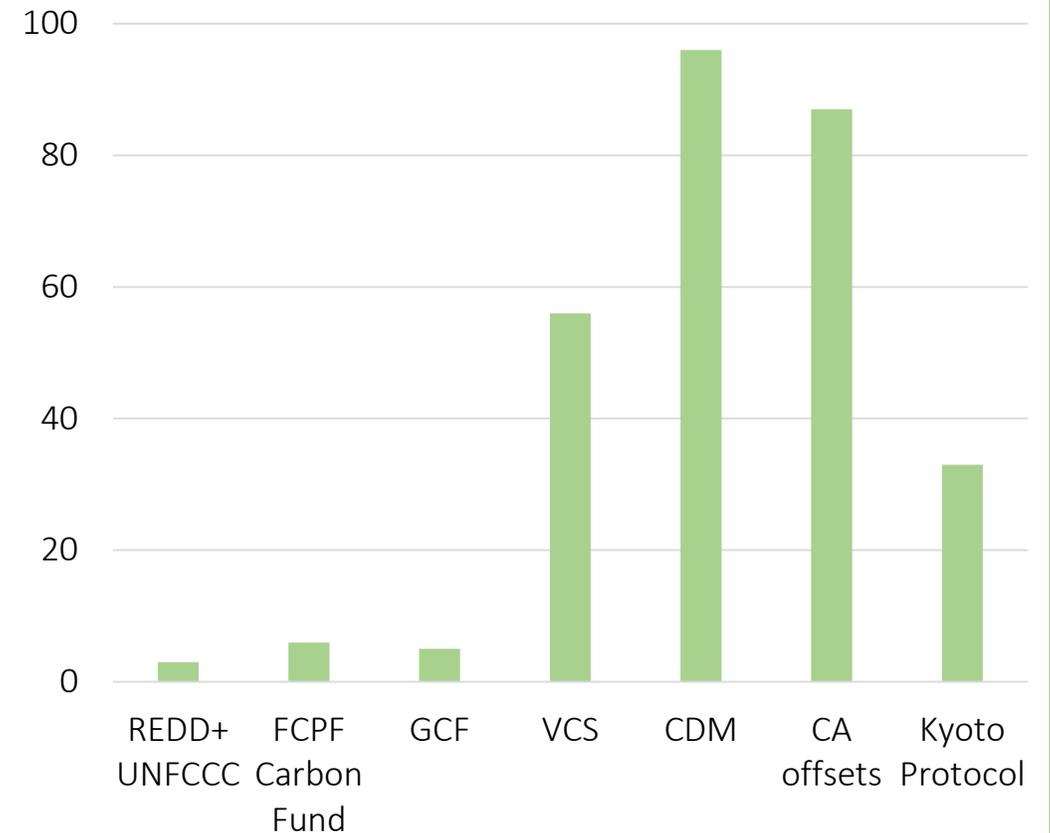
## Evaluation guidance

Many GHG evaluation schemes provide verification guidance on issues such as:

- Professional conduct, impartiality, conflict of interest provisions
- Documentation
- Evaluation approach (e.g., risk-based)
- Verification methods
- Reporting and Verification statements
- Quality management

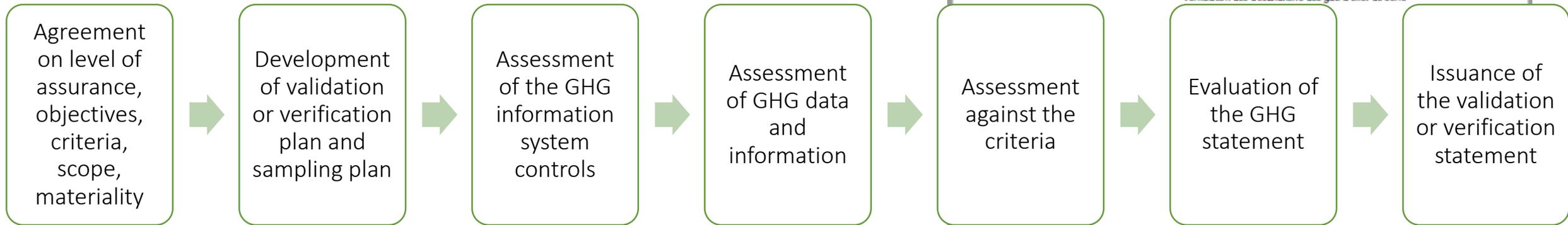
### Varying detail of evaluation guidance

# pages in applicable guidance documents

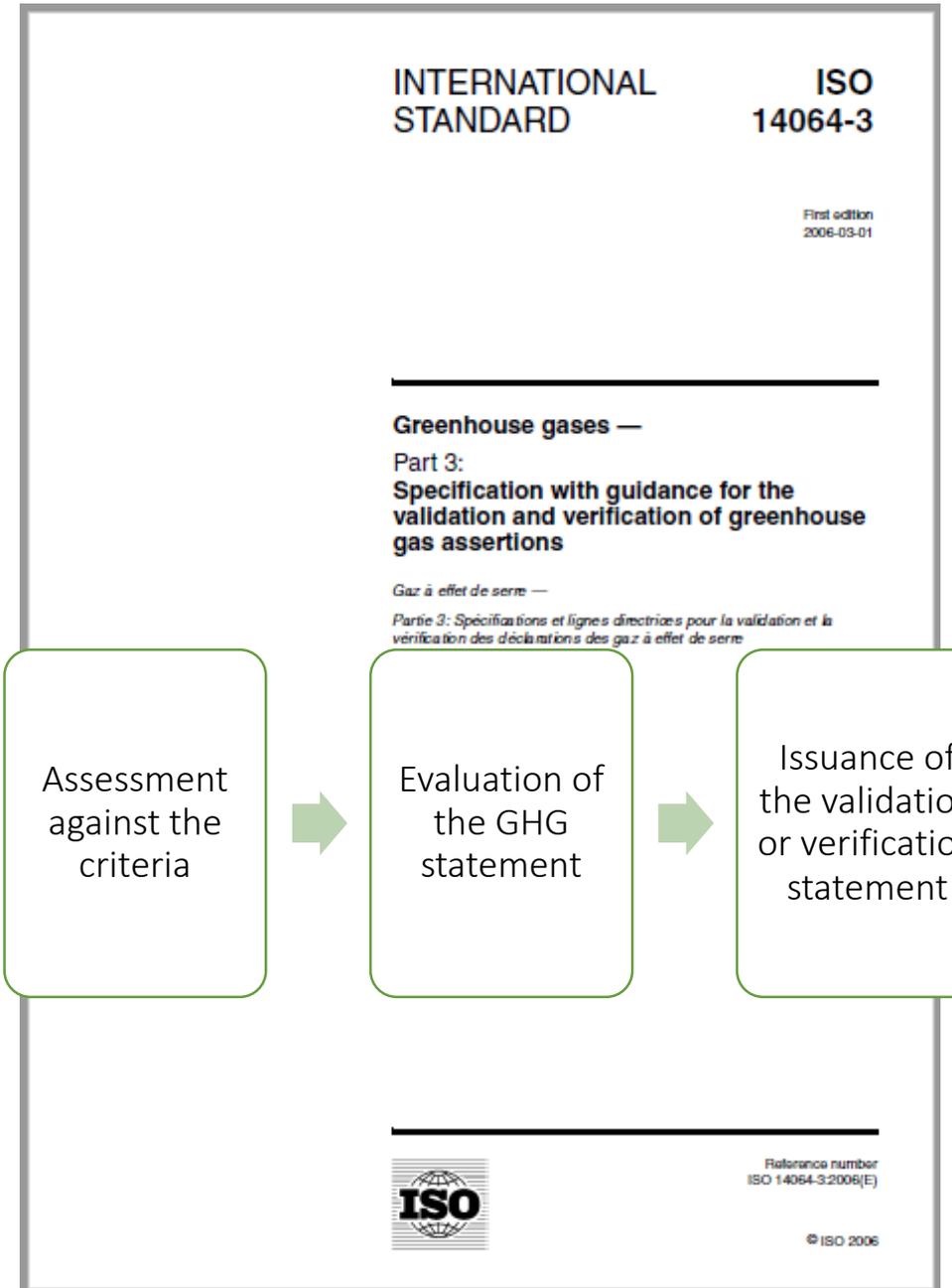


# Evaluation guidance

Example of ISO 14064-3 “Specification with guidance for the validation and verification of greenhouse gas assertions”



**What evaluation guidance does the Carbon Fund need and how should it be agreed?**



## Setting criteria/accrediting verification entities

**Purpose:** Deliberate design of selection criteria for verification entities and a transparent selection process can support consistency, transparency, independence, quality, and, possibly, resource efficiency in evaluations.

Formal accreditation is the “third-party attestation related to a validation or verification body conveying formal demonstration of its competence to carry out specific validation or verification tasks” (ISO 17011). For example, the CDM Executive Board has a dedicated standard and maintains a designated panel for overseeing accreditation. Auditing firms undergo desk reviews, on-site assessments and unscheduled spot-checks of evaluation performance to obtain and retain accreditation.

### Example eligibility criteria

Technical expertise

Experience

Conflicts of interest

QM

Cost

### Selection process

Use of World Bank procurement and fiduciary requirements

**What criteria should CF verification entities need to meet? And to which extent are those guaranteed by accepting accreditation for ANSI and/or the CDM?**

## Risk-based auditing

**Definition:** An auditing approach that systematically focuses on aspects of a process where risk of errors are greatest.

The whole process is guided by the level of assurance the auditor is asked to obtain and the applicable materiality threshold.



**CFPs decided on use of an auditing approach at CF16, but what are the implications of using a risk-based auditing approach?**

# Materiality

**Definition:** A material discrepancy in a GHG assertion is one that would change or influence the decision of CFPs.

The materiality concept enables review to prioritize the most critical aspects of GHG quantification by setting a threshold for influence on emission reductions.

Examples:

- CA offset program: 5%
- CDM: 0.5 to 10% depending on the size, type of project
- VCS: 1 to 5% depending on the size of the project
- Australia: professional judgement of the auditor, following guidelines
- Guyana-Norway bilateral and REM-Colombia: 0%, implying all misstatements are material

The FMT at CF16 defined non-conformities for the TAP assessment, among other things, as “mistakes ... which could have a material influence on the results”

**What is an appropriate threshold for the CF to identify material issues? What are the implications of this?**

# Mandate and non-conformities

## Implications of identifying non-conformities - examples

KP review	Expert review team identifies non-conformities and can adjust country GHG claim accordingly	→ The expert review team has much leverage (although rarely applied)
CDM validation / verification	In case of material non-conformities, auditors raise corrective action requests that must be addressed	→ Review 'has teeth' that shape the dynamic of the evaluation process
UNFCCC REDD+ technical assessment	Technical experts can propose areas for future improvement, follow-up is discretionary to the country	→ Experts have little leverage to force modifications
Norway-Guyana verification	Auditor identifies corrective actions (major and minor), majors must be addressed in year of verification, minors checked in subsequent audit (and penalized if not fixed)	→ Review with 'teeth' but also used to improve systems over time (through use of both major and minor CARs)

## Mandate and non-conformities

For the TAP assessment, the FMT has defined non-conformities at the CF16 as follows:

- ‘Majors’ in case of “mistakes ... [with] material influence on the results”, where evidence is insufficient and when not complying with criteria
- ‘Minors’ in case of smaller mistakes=, where missing evidence does not lead to system breakdown and in case of verification during future verifications
- ‘Observations’ as team recommendations for future improvement

No clarity yet on process implications of majors, minors or observations. In the past the CFPs have considered ERPDs in case of remaining non-conformities, but this is up to FMT judgment.

**How should the Carbon Fund define non-conformities for the ER verification and what mandate should the verifier have in case of such non-conformities**

## Summary statement and level of assurance

- Levels of assurance in everyday language:
  - “in our opinion the ER Program’s GHG statement is **materially** correct”
  - “during the review, no major problems with the GHG statement were found”
- Auditors choose evaluation methods according to statements they are required to make, e.g. a “reasonable assurance” requires a field visit

Common evaluation methods:

Assess monitoring system

Assess calculation rules and definitions

Check primary measurements against independent data

Examine monitoring equipment

Reconstruct calculations

Cross-check results against secondary sources

**What evaluation statement should the Carbon Fund’s ER verifier make? And what evaluation methods should they apply to underpin such statements?**

# Summary statement and level of assurance

Example: Summary statement from the Norway-Guyana bilateral verification

Link to materiality

## Conclusions

It is DNV GL's opinion that the results provided in the Interim Measures Report by Guyana Forestry Commission dated 30 November 2015:

Evaluation guidance

- have been obtained applying methodologies in accordance with internationally accepted good practices as defined by the verification criteria;
- are free from omissions and misrepresentations that could lead to material misstatements.

Summary evaluation opinion according to evaluation criteria

Furthermore, recommendations for improvements in future monitoring periods are summarised as Minor Corrective Action Requests (MINORs) or Observations. These MINORs and Observations are listed in Appendix A of the Verification Report.

Capacity-building recommendations

DNV GL has verified that the values for the interim indicators in this monitoring period (1 January 2014 to 31 December 2014) are:

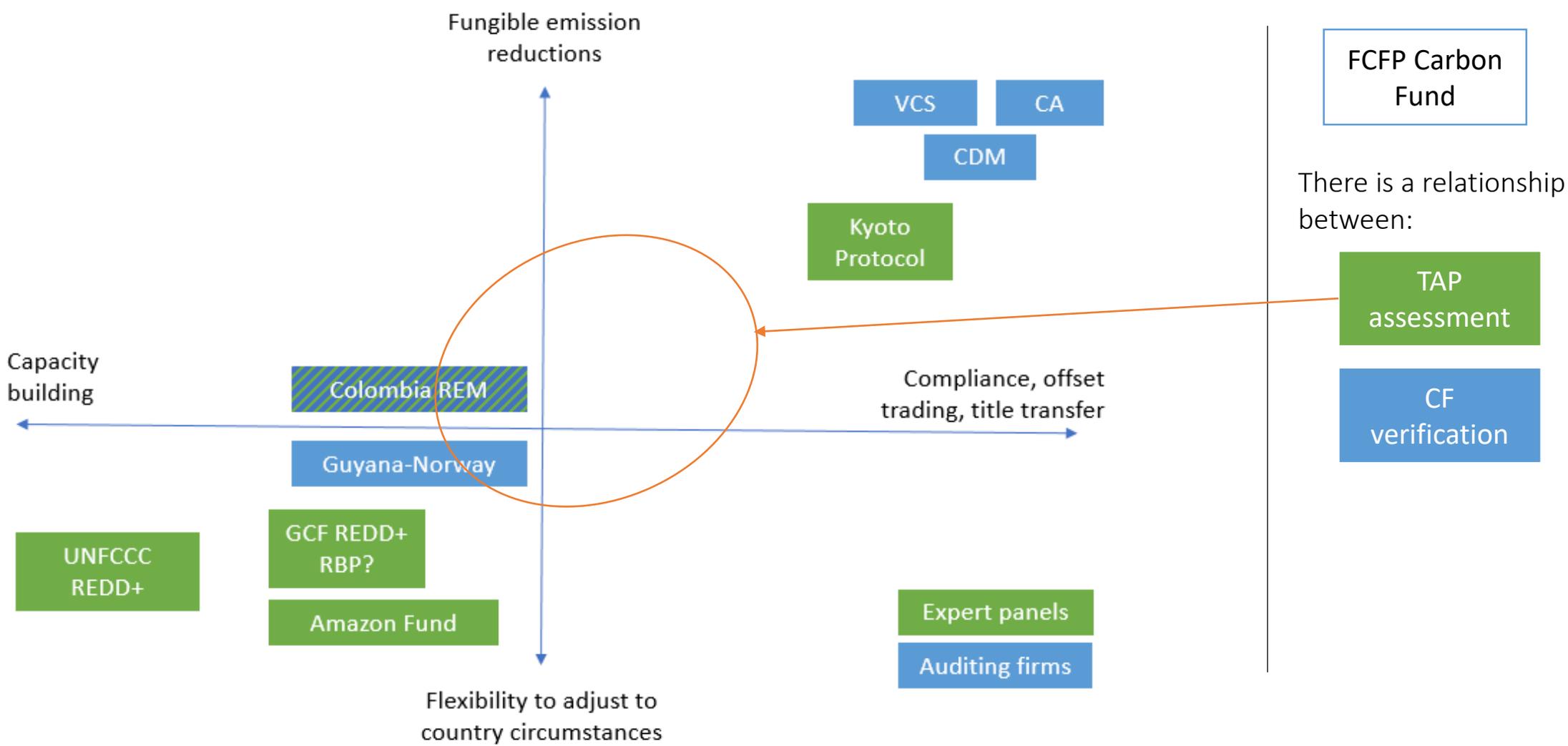
Verified statement

Measure Ref	Indicator	Year 5 results
1	Indicator 1: Gross Deforestation rate in Year 5	0.065%
2	Indicator 2.1: Loss of intact forest landscapes	7 604 314 ha (111 ha loss)
2b	Indicator 2.3: Carbon loss as indirect effect of new infrastructure.	4 251 ha

(further indicators follow)

**Concluding thoughts on the  
TAP assessments and ER verifications...**

# Where do CFPs want the Carbon Fund to ultimately land...



# ...and what are the implications/trade-offs?

- Stricter validation / verification mandates may reduce capacity building opportunities
- A desire to generate high-quality, fungible market-based emission reductions may conflict with current (flexible) practices of TAP assessments – this may require changing the TAP process, for example:
  - Enhancing consistency among TAP assessments, which requires allocating additional resources for quality control and developing evaluation guidance
  - More detailed guidance for GHG statements, which can improve the comparability of ERs but reduce flexibility, straying from the piloting nature of the Carbon Fund
  - Providing a level of assurance on GHG statements and require application of the concept of materiality, as well as certain evaluation methods

- Developing evaluation guidance and/or selection criteria for verification entities can improve the consistency and quality of verifications, and the comparability of ER statements, but requires time and resources
- A strong mandate for the verification entity in identifying non-conformities will give the evaluation more teeth, but it requires ceding control over decision making
- Maximizing capacity building opportunities would require better clarifying the role of TAPs (and of verification entities) in pronouncing technical recommendations, as well as defining a process for follow up and continuous improvement

# Acknowledgements

These are some of the experts that we interviewed and that helped us through sharing their expert knowledge on evaluations of REDD+ results or other types of quantified GHG statements:

Andrés Espejo

Anthony Bennie

Carly Green

Chris Dragisic

Dan Doherty

Edwin Aalders

Evan Notman

Fred Stolle

Inge Jonckheere

Leticia Guimaraes

Maarten van der Eynden

Marco van der Linden

Marieke Sandker

Marius von Essen

Martin Herold

Naomi Swickard

Jan-Willem Martens

Pradeepa Bholanaath

Sam Hoffer

Sandro Federici

Sylvia Wilson

Thomas Harvey

... and thanks to the GFOI for helping to facilitate this study, including allowing us to draw on the expertise and experience of the GFOI network

# Thank you!

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