

FCPF Carbon Fund Short Submissions on Methodological Framework Topics

FCPF Facility Management Team November 22, 2012

Summary: The FCPF Carbon Fund invites any organization or individual to submit a short, **maximum 5-page** “submission” on how the Carbon Fund could best address any of the design issues being considered in a set of about seven issue papers being drafted to inform the development of the Carbon Fund’s Methodological Framework. **Submissions are due: by December 20th, 2012.** (The FMT may consider later submissions, but the issue papers are being drafted in December and January.) Please submit (and send any questions) to: fcpfsecretariat@worldbank.org.

Background: The FCPF’s secretariat, called the Facility Management Team (FMT), is housed in the World Bank’s Carbon Finance Unit. The FMT, along with independent expert consultants, is developing a set of about seven issue papers to help development of a Methodological Framework (MF). This MF is intended to guide REDD+ countries in designing Emission Reductions Programs (i.e., essentially large projects at jurisdictional scale) to propose to the Carbon Fund (CF), and to assist Carbon Fund Participants (financial participant countries, organizations or companies) and civil society, private sector, and indigenous peoples Carbon Fund observer representatives in assessing the Program proposals received.

Purpose of submissions: To provide a transparent opportunity for any organization, country or person to offer succinct views on how the FCPF Carbon Fund could best address a given issue in developing its Methodological Framework. The FMT and its consultants will review submissions, post them on its public web site, and consider them if appropriate in the development of the issue papers and MF. (The FMT may not reply to the substance of any submission, since the development of the MF will be a continually evolving process over 9-12 months.)

Issue Paper topics, and some key questions: Submissions on all or only one aspect of a paper topic are fine (e.g., addressing only biodiversity issues for the benefit sharing paper).

Issue Paper 1: General Approach for MF, and scope of activities covered: use standards and indicators, or more detailed guidance or methods, or a positive list of other initiatives (i.e., if a Program meets requirements of another climate initiative (like CDM or VCS) on a topic, the Program automatically meets CF requirements on it). Some key questions we seek ideas or advice on:

Q1: Is it reasonable for a mix of different approaches to be used to address different issues; or does a single approach need to be selected for the whole MF?

- I.e., is it reasonable to use, for example, a standard and indicators approach for benefit sharing or financial strategy, but offer far more detailed and more technical guidance for how some of the carbon accounting or other issues are addressed, for example how the MRV system is designed and its capabilities?
- Or should more flexibility be given to countries to propose how they would address an issue?

Q2: Are there implications for the integrity of the MF, and hence the Emission Reductions tonnes a ER Program generates, if a mix of approaches is used?

Issue Paper 2: Reference Levels; and additionality. Some key questions we seek ideas or advice on:

Q1: How should historic reference emissions level/RL be set for Carbon Fund ER Programs?

- Do other climate initiatives use approaches that the CF should adapt for its purposes?
- What is the appropriate period to determine the historic deforestation rate? (Keep in mind the short lifetime of an Emission Reduction Payment Agreement (ERPA) contract, to say 2020.)
 - Same period for all programs? If same, what is appropriate period? Or:
 - Flexible period, depending on country circumstances? How should an appropriate period be determined?
- How should the appropriate region for determining historic deforestation rates be defined?
 - Simply the program area? Or a wider area? If wider area, how wide should the area be beyond the program area, and how should it be set?

Q2: For sub-national programs, does another climate initiative use a promising approach to address the relationship to the national reference level?

Q3: How should “national circumstances” be handled, and any projections of future land use change (e.g., deforestation), policies or programs be estimated?

- Should the CF prescribe the approaches that can be used to project future deforestation? Or should each country be free to apply its own approach?
- What are the most feasible approaches (e.g., historical average approach, economic modeling approach, etc.)? Which approach is most appropriate under which conditions (e.g., if there are recent changes in the trend of historic deforestation, or of commodity prices)?

Q4: Should reference levels, ER Program activities, MRV, and leakage all be addressed with geospatial resolution? (i.e., requiring mapping of lands affected). Or is knowing *where* lands are affected by providing geospatial resolution not necessary, and just knowing the *quantity* of lands and tonnes within some jurisdiction adequate?

Q5: When do reference levels need to be updated, or can they remain fixed for the life of the CF Program ERPA contract (e.g., to 2020)?

- If updated: what triggers the process of updating? (e.g., significant change in key driver assumptions, like a steep increase in timber or soy prices? Change in major associated government policies?)
- Should updates occur at a fixed time period (e.g., say every 3 years?), or whenever triggering events occur?

Q6: Should the CF determine crediting against the reference level, or against a separate “crediting level” below the RL that somehow takes domestic mitigation actions or discounts for Program uncertainties into account?

Q7: How can additionality be built into the reference level (i.e., activities occurring already or likely to occur are contained in the RL, and any activities beyond it are by definition additional)? Or does additionality need to be determined separately for each ER Program?

- Are there consequences for RL setting if additionality is addressed in the RL (e.g., should the RL be updated more frequently to account for changing circumstances)?
- If determined separately, are there feasible options for assessing program additionality in a meaningful way, given the challenging CDM experience?

Issue Paper 3: MRV design: carbon accounting of Emission Reductions Programs, non-carbon, community role; and registries. Some key questions we seek ideas or advice on:

Q1: Considering the circumstances of the CF (piloting, in REDD+ phase 2), how accurate does the measurement and monitoring need to be?

- Should the same minimum level of accuracy be required for all programs? If so, what level of accuracy should be required? What criteria would help determine such a level (e.g., how feasible a level is for most REDD+ countries to achieve; or a level that allows the fungibility of credits with other climate program standards)?
- Or should the CF be flexible, not prescribe a minimum level of accuracy, and be responsive to country circumstances?
 - If so, what are the appropriate country circumstances?
- How can the CF encourage countries to strive for higher accuracy, perhaps over time?

Q2: The Program monitoring system is expected to be consistent with the (emerging) national REDD+ forest monitoring system. What are appropriate criteria to assess this consistency?

Q3: Are cost effectiveness, and country capacity, important considerations? I.e., should the MF stress a stepwise approach that is comfortable with early-stage approaches to issues (like early steps in developing the MRV system, short of a fully functioning system); or require potentially more expensive, higher capacity minimum approaches? (Recall the short timeframe of ERPAs, through perhaps 2020.)

Q4: Non-carbon values should be monitored as feasible by REDD country Programs (and consistent with the national REDD+ forest monitoring system). How feasible is this for major non-carbon values? What are criteria for assessing feasibility?

Q5: Are there best practices for the potential involvement of local communities in the MRV system design and implementation?

Q6: Is independent third-party verification essential for CF ER Programs; or should countries be able to propose how verification is performed, and by whom?

Q7: Should a registry of REDD+ activities be required for a CF Program in a country? (The FMT is considering cooperating with others to develop a common registry platform that could be distributed at no cost to FCPF countries.)

- If so, what key functions should it include?
- If not, how would the CF know that an activity or set of lands have not been double counted?

Issue Paper 4: Displacement of emissions (leakage); reversals of GHG benefits (non-permanence); and sustainability of ER Programs. Some key questions we seek ideas or advice on:

Q1: Should potential sources of leakage (e.g., reduced harvest, or reforestation croplands that leads to lands being harvested or cleared outside the Program area) be assessed using the same standardized approaches and sources for all ER Programs? Or could an approach for leakage assessment be proposed by each Program?

- Does another climate initiative use an approach appropriate for the CF circumstances?
- What key sources should be assessed, using what methods or tool?

Q2: To what geographic extent should leakage be assessed? E.g., within the region surrounding the Program area only? Or for the whole country? Should the potential for international leakage be just discussed, or are there circumstances where it should be estimated? (E.g., where Program activities may significantly impact regional agricultural commodity or timber product markets)?

Q3: Are there approaches available where Program measures could be put in place to address leakage that are robust enough to avoid a more expensive monitor-and-report approach?

- E.g., by identifying best practices for addressing potential leakage?
- Could the FCPF or others develop something like default look-up tables generated by say global or national-scale economic or other modeling, that provide an agreed percentage of leakage a Program would use for a given set of land use drivers and location? (These could be periodically updated, as conditions change and data and methods improve.)

Q4: What is the most feasible approach to reversals (non-permanence) for the CF?

- Does another climate initiative use a method appropriate for the CF circumstances?
- Should reversals be handled via a common approach across the CF (e.g., via a CF-wide pooled buffer or other approach)? Or via an approach each ER Program proposes?
- Are there approaches available where the Program measures in place to address reversals are robust enough to avoid a Program monitor-and-report approach?

Q5: Are approaches available to address reversals beyond the lifetime of the ERPA contract? Or can non-permanence only be addressed until the end of the ERPA period?

- Should a fixed period be prescribed for ER Programs to address reversals? (E.g., some industrialized country climate initiatives in areas with clear land tenure and legal regimes specify 100 years.)

Q6: How should liability for reversals be handled between the CF and ER Programs, and should specific measures be in place to implement such liability?

Q7: Are there specific design characteristics of proposed ER Programs that could be included in order to increase the likelihood that Emission Reductions and the Program are sustainable over time?

Issue Paper 5. Safeguards: WB safeguards, reporting on Cancun safeguards; feedback and grievance mechanisms. Some key questions we seek ideas or advice on:

Q1: Can Programs readily use existing WB safeguards policies and instruments (e.g., SESA, ESMF), or are additional actions necessary?

Q2: How can integrated reporting on WB safeguards and on the Cancun safeguards via the Safeguards Information System (SIS) best be achieved, to minimize the burden on countries?

Q3: What are best practices for country or Program feedback and grievance mechanisms?

Q4: Is there anything that needs to be reported that is not likely to fall under WB safeguards or the SIS?

Issue Paper 6: Benefit sharing mechanisms, including equitable distribution; carbon rights, land, and resources tenure; non-carbon benefits. Some key questions we seek ideas or advice on:

Q1: Should the CF set best practices or other benchmarks for equitable distribution and the design of benefit sharing mechanisms? Or should it simply require that such mechanisms be in place and be transparently proposed?

Q2: How can the CF incentivize ER Programs to make progress on carbon rights and land and resource tenure, within the short timeframe of ER Programs up to 2020?

Q3: What non-carbon benefits are most important for ER Programs to consider? Should the CF set best practices or other benchmarks for some or all of the benefits identified in the “Key Elements of the Methodological and Pricing Approach for the FCPF Carbon Fund” provided by the Participants Committee?

- I.e., “improving local livelihoods, building transparent and effective forest governance structures, making progress on securing land tenure, and enhancing or maintaining biodiversity and/or other ecosystem services”

Q4: Is there promising experience in the valuation of non-carbon benefits by conservation or carbon finance or other programs that the CF should be aware of?

Q5: Are cost estimates available for addressing key non-carbon benefits; and are potential costs manageable for ER Programs?

Q6: Are cost-effective approaches available for monitoring key non-carbon benefits from the UNFCCC, CBD, or other relevant programs or projects?

Issue Paper 7: Structuring and financing ER-Programs, in the context of country development and REDD+ plans. Some key questions we seek ideas or advice on:

Q1: How can a country best structure an ER Program proposal in its development and development assistance context?

- How large a Program should a country offer (e.g., how many hectares, or tonnes of carbon potentially produced, and other benefits, in which regions)?
- Can some areas within a jurisdiction be excluded from the ER Program, or does it need to include all lands within some boundary? (Related to any guidance offered on reference levels, MRV, and leakage.)
- How should a Program's capacity to manage a Program be demonstrated and assessed?
- Can any guidance be given on how a country determines the appropriate mix of carbon and non-carbon benefits for its context and ER Program area?

Q2: How can a country decide which of the potential activities in its emerging REDD+ strategy in its R-PP it makes sense to propose to the CF?

- Should the easiest to implement, or first to be implemented, or lowest cost, or easiest monitored ones be offered to the CF?
- Should a country reserve some options for eventual domestic markets or regulatory or voluntary programs?

Q3: How best can a country draft a business plan for its CF proposal, addressing the proposal's relationship to other mitigation or development programs it has planned or is considering?

- What are the key assumptions made about potential risks, program effectiveness, carbon price, and program delivery time?
- What is the anticipated cost of delivery for tonnes of CO₂ for this proposal?
- How sensitive are the cost estimates to key risk, effectiveness, and delivery variables?
- Can any guidance be provided regarding how a country proposes the timing of ERPA payments and MRV events, and the trade-offs across them? (I.e., more frequent payments offer early revenues to cover costs or offer benefits, but likely require more frequent MRV)?