WWF Submission to the FCPF Carbon Fund
DRAFT Methodological Framework ("September 5, 2013" Version)

October 2, 2013

Is the Carbon Fund positioned to achieve its goals?

The framing objective from the FCPF Charter that captures the core mandate of the Carbon Fund (CF) is
"..*to pilot a performance-based payment system for Emission Reductions generated from REDD activities, with a view to ensuring equitable benefit sharing and promoting future large scale positive incentives for REDD.*" The three other objectives outlined in the FCPF Charter are equally important; however, this one highlights the central opportunity and leverage of the CF. Though the CF itself has limited capital, the success or failure of the 5-7 subnational and national pilot programs to be financed by the CF will be highly significant in determining whether the REDD+ model will or will not attract sufficient new support to arrest deforestation and contribute to a climate change solution.

WWF believes that the CF's success in *promoting future large scale positive incentives* for REDD+ will rest on three key outcomes:
  a) The CF and Participant countries' ability to systematically and credibly demonstrate verified emissions reductions against robust and transparent reference levels;
  b) Public and private sector efforts converge to directly address drivers of deforestation and degradation; and
  c) Carbon Fund programs are planned and implemented in a truly participatory, transparent and fair manner, substantively engaging local communities, and helping to improve opportunities and livelihoods in these communities.

The DRAFT Methodological Framework (MF) makes good strides toward incentivizing these outcomes and strikes a reasonable balance between "too much" and "too little" detail, emphasizing essential expectations while providing flexibility to forest countries in what is a piloting space. However, guided by the desired outcomes described above, WWF would like to address several issues here that can be significantly strengthened to maximize the learning and positive impacts resulting from CF programs.

Key issues that require strengthening in the *Methodological Framework*

1. **Take reasonable measures to ensure longevity of emissions reductions (i.e., address reversal risk post-2020)** – Given the limited anticipated life of the CF, the MF must take steps to increase the likelihood that achieved emissions reductions (ERs) will be maintained long after 2020. Since we cannot anticipate what global REDD+ mechanism(s) may be in place in 2020, WWF would support a relatively simple approach to address this issue in addition to existing MF language describing sustainability beyond ERPA term (Indicator 9.2). Some demonstration of commitment to ER sustainability is essential, and any approach must have flexibility to work with different possible global contexts post-2020. WWF would support, for example the creation of a buffer possibly proportionate in size to assessed reversal risks (Criterion 19). At the end of the performance period, this buffer could be advanced in part to meet requirements of a potential new mechanism that takes

over monitoring of the ERs, and remaining volume could be paid out to the program proponent. If a new mechanism is not in place in 2020, then the proponent (and ER buyers) would forfeit the buffered ERs unless an alternative interim monitoring arrangement can be agreed.

2. **Maintain portfolio-level goal of absolute reductions** - To promote future large-scale incentives, the CF must reduce absolute emissions from forest-related activities. WWF strongly supports the chapeau language on page 2 that states this goal and its consideration when taking new programs into the CF portfolio. Providing finance opportunities for HFLD countries is essential to anticipate and address imminent threats to forests; however, collective ERs across the CF portfolio (e.g., measured against an aggregate historical RL) should show an absolute climate benefit relative to historical reference periods.

3. **Use consistent references to IPCC Good Practice Guidance (GPG) –** References to IPCC GPG in sections on carbon accounting scope, reference levels, MRV and glossary will help ensure robust accounting and methodological consistency, in addition to helping bridge country programs and capacity to potential results-based finance streams beyond the Carbon Fund. IPCC references should be carefully reviewed and consistently footnoted throughout the MF to ensure they can be cross-referenced by program proponents to specific IPCC GPG sections that provide full context.

4. **Avoid use of *relative* ERs (below "business as usual" but <u>above</u>-historical reference levels) as offsets** – All ERs generated below BAU represent real results and are equally valuable; however, use of ERs that fall *above historical RLs* to offset national commitments confounds the math of achieving a 2 degree climate solution (i.e., because these do not represent absolute reductions). This can be addressed by setting up an HFLD "reserve" from which to finance the "limited set of programs" (Criterion 13) where adjustments above historical are allowable. Such a reserve could be flexible in size (e.g., initially capitalized proportionate to global tropical forest area estimated in HFLD circumstances), but should be capitalized from the restricted Tranche B for which purchased ERs will be retired. Remaining Tranche B and Tranche A funds would collectively finance all other programs. (see WWF submission January 3, 2013 and EDF submission August 2013).

5. **Ensure that carbon accounting methods and data are fully-transparent** – The best way to ensure that climate results are rigorously quantified and incentivize scaled-up finance is for reference level and MRV data, methodologies and calculations to be fully transparent[1]. Importantly, this transparency also facilitates shared learning and expedites progress in the rapidly evolving field of carbon accounting. We propose language in attached DRAFT to clarify and limit cases where data and methods are not fully and publicly disclosed.

6. **Use consistent units in equations 3, 4, 5 and 6 of Annex 1 (reference level options 1 and 2 for HFLD countries) to avoid confusion between "hard" emissions reductions and context-based performance.** See Annex for full technical explanation.

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[1] WWF believes that the FCPF should identify additional avenues to advance Participant country capacities to achieve verified subnational or national emissions reductions in an appropriate timeframe. This is not an issue for the Methodological Framework text per se, but the framework places substantial technical demands on Participants relative to the development of capacity in carbon accounting.

7. **Strengthen criteria and indicators on safeguards planning and implementation to ensure that ER programs are fully participatory and bring multiple benefits beyond emissions reductions** – WWF supports improved text from Paris discussions directing programs to promote and support the UNFCCC "Cancun safeguards." In addition, we suggest several simple revisions in attached draft that will improve these outcomes without placing an undue burden on program proponents, with the belief that robust safeguards systems and co-benefits will go a long way to building broader support for the REDD+ model.

8. **Ensure adequate progress in design of benefit sharing arrangements prior to ERPA signature** – Section 5.2 includes the most important elements in design and implementation of benefit sharing arrangements; however, it is not clear that enough information will be available to Carbon Fund Participants and civil society with adequate time to inform negotiation of the ERPA. For example, according to Criterion 27, if little is known about benefit sharing at the time of ERPD completion, then little needs to be disclosed for consultation until ERPA signature. We suggest specific language in attached DRAFT that ensures a consultative, transparent and participatory process (Criterion 29) is already well-underway at the time of ERPA signature.

Concerns regarding the MF Annexes 1, 2 and 3 (proposed options for Criterion 13, Indicator 13.3)

Option 1 seeks to use the "Combined Incentives approach" building on the experience of the Guiana-Norway (GN) agreement. WWF considers this to be, in principle, a good approach. However, as it is now used in the MF, it raises several concerns, because the Comparative Baseline (CB) formula uses values that may render the result inconsistent. Specifically, CB formula combines global average deforestation values (0.43% and 0.0x%) with carbon stocks values specific to the particular program area, measured in $MTCO_2$. In the case of the GN agreement the potential inconsistency of the formula was avoided based on the assumption that all Guiana's forests have the same value (367 tons of CO_2/ha). As a result, whatever hectares deforested would be assumed to release the same amount of CO_2. But MRV experience in many places demonstrates that estimates of CO_2 content varies widely per forest type and location. Hence, applying the CB formula as currently proposed can result in large overestimations of the RL if a) the historical deforestation occurred on already degraded forests and b) what remains are denser, more CO_2 rich forests. There are many examples of landscapes (e.g., Peru, Costa Rica, DRC) where historical deforestation has occurred mostly on secondary or degraded forests while most of the remaining area is constituted by primary or mature forests.

Possible alternatives:

A. _**Transform the deforestation context values into emissions context values**_
    1. FAO deforestation Formula for % Deforestation

$$q = \left(\frac{A_2}{A_1}\right)^{\left(\frac{1}{t_2 - t_1}\right)} - 1 \qquad \text{(Source : FAO)}$$

    Where:
        a. q=deforestation rate (in %)
        b. A_2=Area at time t_2
        c. _A_1= Area at time t_1_
    2. Replace area data with stock estimates data for both program area as well as REDD+ countries based on FAO data and obtain, for example, REDD+ countries overall emissions percent rate as a Context rate (CR_{er}) as well as the area or specific country rate ($Area_{er}$).
    3. For this:
        a. Calculate carbon stocks for reference using FAO estimates for 2000 and 2010
            i.   At this time there will be a good level of co-linearity with area data as carbon estimates are general per ha for the whole country.
            ii. However, the quality of this reference data should improve as countries improve their baselines
        b. Calculate historical data for implementation area as it is being done anyways.
    4. We proposed to use these to establish a **Carbon Baseline** following the example used for the Guyana – Norway agreement:

$$CB = \propto (A_{er} \times Stocks_{t2}) + (1 - \propto)(CR_{er} \times Stocks_{t2})$$

    Where:
        - CR_{er} is the Context Reference (e.g. REDD+ countries) emissions rate in decimals[2]
        - A_{er} is the implementation area emissions rate in decimals
        - $Stocks_{t2}$ are the remaining forest CO_2 stocks in $MTCO_2$ in the implementation area
        - α is the proportion of recognized potential payments that would go towards actual reduction below historical emissions rates applied to current carbon stocks.

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[2] See section below on "How to Calculate CR" for example.

In this case, performance would be assessed by:

$$ER = \propto [(A_{er} \times Stocks_{t2}) - MRV_e] + (1-\propto)[(CR_{er} \times Stocks_{t2}) - MRV_e]$$

Where:

- MRV_e are the MRV'd emissions of any given year
- The first element of the formula are the hard reductions
- The second element in the formula are avoided potential emissions.

Payments could be linked accordingly and cover reductions themselves as well as preservation of carbon stocks as defined by the α value chosen.

NOTE: Authors working on the development of the Combined Incentives approach have explored other alpha coefficients. A higher value would provide better overall results as it would compensate better actual emissions reductions while still recognizing preservation of carbon stocks. (this could help deal with concerns raised by the US State Department) see: http://www.sciencedirect.com/science/article/pii/S0959378008001180

5. For the threshold we would only suggest for simplicity and consistency to apply the 0.0X% factor to be added to the historical emissions rate to the overall stocks as opposed to the potential emissions as this 0.0X value should be an emissions rate number rather than a deforestation rate value. In this case, as in the GN Agreement the proportion of emissions and hectares remains the same due to the fact an average of 367 MTCO$_2$/ha was used, we would think use of the same value should be OK: 0.07% rate.

B. _Use an overall average estimate for CO$_2$ content per ha:_

Use an average estimate of CO$_2$ content per ha for the stocks estimates as was done for the GN agreement. This would reestablish the connection between the percent deforestation values to be a reference for both the CB as well as the Threshold and the emissions rates. Such estimate should be linked with its overall uncertainty estimate derived from the same data used for stocks as well as emissions factors.

In all cases where estimated values and uncertainties are a concern, a conservativeness index can be applied based on overall uncertainty estimates derived from carbon estimates as well as activity data, following the example of the CDM:

Decision 20/CMP1 Good practice guidance and adjustments under Article 5, paragraph 2, of the Kyoto Protocol, available on page 39 of http://unfccc.int/resource/docs/2005/cmp1/eng/08a03.pdf#page=21)

9. The uncertainty values have been grouped into five sets of uncertainty bands, with corresponding conservativeness factors, by assigning a given uncertainty value to a given band. These bands relate to the underlying uncertainties, as follows:

Estimated uncertainty range (%)	Assigned uncertainty band (%)	Conservativeness factors for emissions in the base year and/or removals in a year of the commitment period	Conservativeness factor for emissions in a year of the commitment period and/or removals in the base year
Less than or equal to 10	7	0.98	1.02
Greater than 10 and less than or equal to 30	20	0.94	1.06
Greater than 30 and less than or equal to 50	40	0.89	1.12
Greater than 50 and less than or equal to 100	75	0.82	1.21
Greater than 100	150	0.73	1.37

How to calculate CR_{er}

This table shows the available data from FAO FRA report 2010 for 47 REDD+ eligible counties on carbon stocks derived from area estimates and average carbon content estimates. Applying the formula FAO uses to estimate deforestation rates to CO_2 estimates, and overall percent emissions rate can be obtained. Use of a similar approach for area of implementation rates allows for a context to be build following the GN approach

Country/area	Carbon stock in living forest biomass (million tonnes)	
	2000	2010
Argentina	3236	3062
Bangladesh	82	80
Bhutan	313	336
Bolivia (Plurinational State of)	4666	4442
Brazil	65304	62607
Cambodia	537	464
Cameroon	2993	2696
Central African Republic	2898	2861
Chile	1328	1349
Colombia	6918	6805
Congo	3461	3438
Costa Rica	217	238
Democratic Republic of the Congo	20036	19639
Ecuador	-	-
El Salvador	-	-
Equatorial Guinea	217	203
Ethiopia	254	219
Gabon	2710	2710
Ghana	465	381
Guatemala	324	281
Guyana	1629	1629
Honduras	407	330
Indonesia	15182	13017
Kenya	503	476
Lao People's Democratic Republic	1133	1074
Liberia	625	585
Madagascar	1691	1626
Mexico	2111	2043
Mozambique	1782	1692
Nepal	520	485
Nicaragua	428	349
Nigeria	1550	1085
Panama	381	367
Papua New Guinea	2423	2306
Paraguay	-	-
Peru	8713	8560
Philippines	655	663
Solomon Islands	186	182
Sri Lanka	74	61
Sudan	1403	1393
Suriname	3168	3165
Thailand	881	880
Uganda	140	109
United Republic of Tanzania	2262	2019
Vanuatu	-	-
Viet Nam	927	992
Zambia	2497	2416
Total Carbon Stocks	167230	159315
Total CO2 Stocks	613177	584155
Emissions rate FAO (q) 2000-2010 in decimals		**-0.0038**

Emissions rate FAO (q) 2000-2010 in %   -0. 38%