



Forest Carbon Partnership Facility

5a. Recommendations of the Working Group on Methodological and Pricing Approach

Fourth Meeting of the Carbon Fund (CF4)

Santa Marta, Colombia

June 24-25, 2012

How Do WG Recommendations Fit into the Broader Task of Creating Quality ER Programs for the CF?

- FCPF and its Carbon Fund is a pilot program, to test performance-based payments in time to share early lessons.
- Guiding principles are a first step. They will evolve over time into operational guidelines for implementing ER Programs.
- We don't need to elaborate every issue now in full detail. Each step offers opportunities to add detail, and to make decisions, on what the CF seeks in ER Programs.
- Emission Reduction Programs are likely to be short, since FCPF ends in 2020 . . . REDD+ countries need to start piloting.

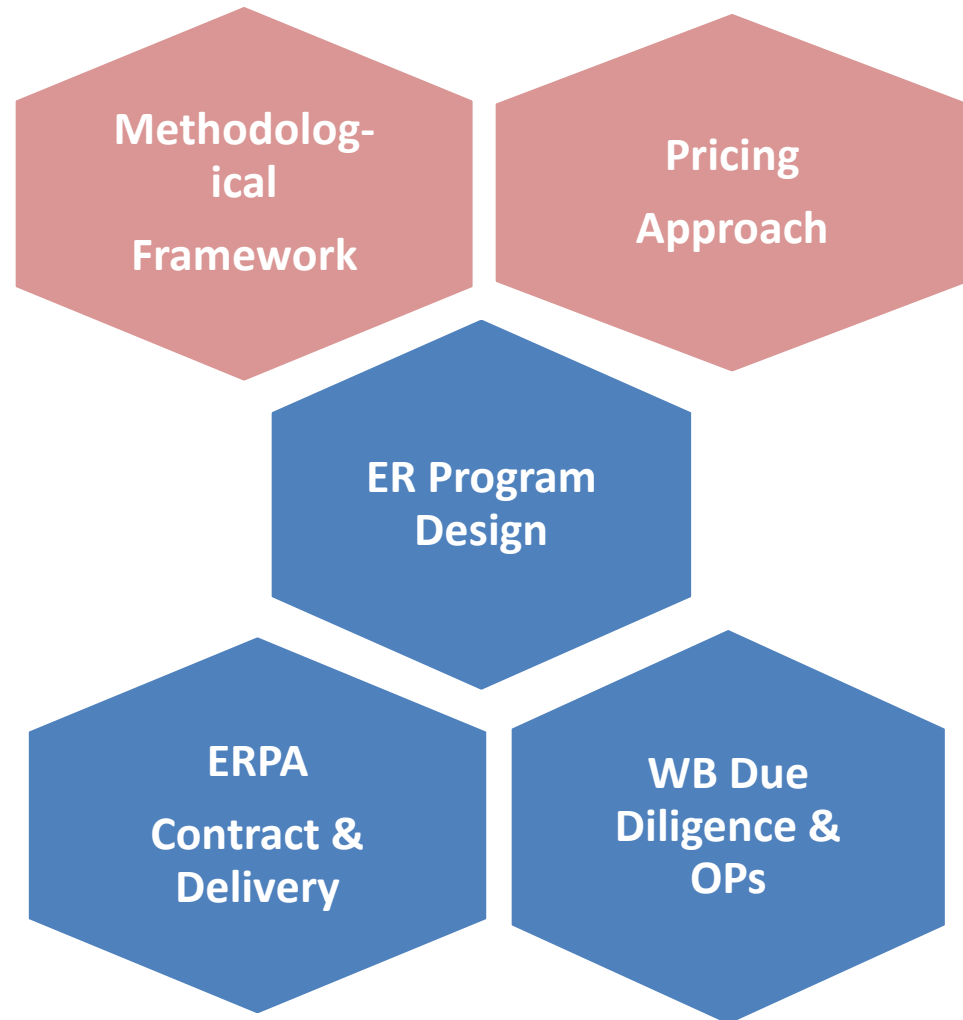
Method. Framework & Pricing Approach Are Part of 5 Building Blocks of an ER Program

**Two blocks being
discussed today.**

**But each block
offers opportunities
to shape an ER
Program.**

**The 5 building blocks
together determine:**

- **What an individual ER Program does,**
- **What guidelines it must meet,**
- **How it will be done.**



Background on the Working Group

- FCPF Charter provides that the PC
 - “shall adopt policy guidance on pricing methodologies for Emissions Reductions Payment Agreements”
 - “shall...provide guiding principles on the key methodological framework”
- PC10 resolution:
 - Organized a Working Group (WG) to
 - Explore options
 - Make recommendations on principles for Methodological Framework and policy guidance on a Pricing Approach to PC12 (June 2012)

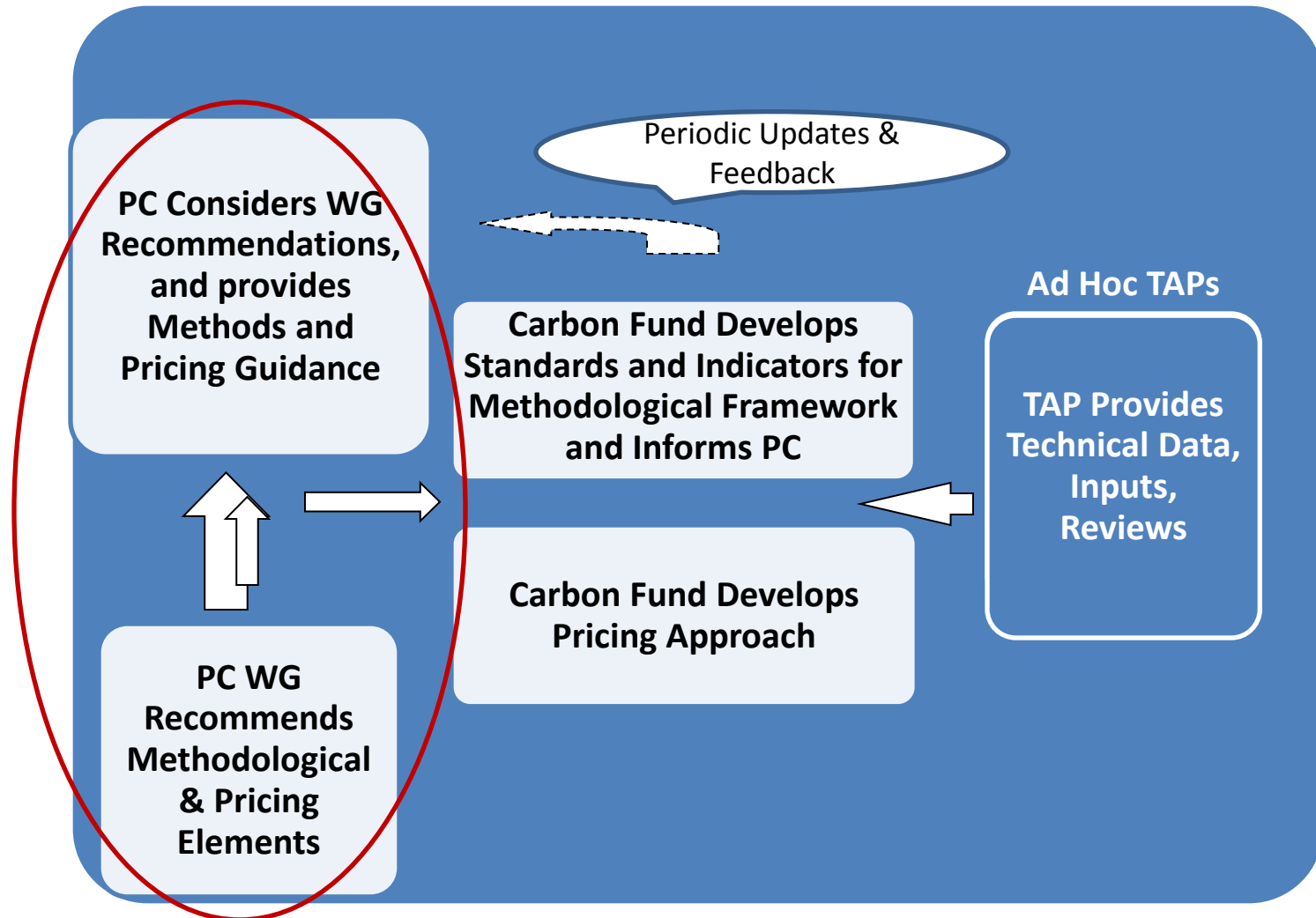
Working Group Composition

- **WG participation:**
 - 3 financial contributors (Donor Participants or Carbon Fund Participants):
 - Australia
 - Germany/Norway
 - The Nature Conservancy
 - 3 REDD Country Participants
 - Mexico
 - Nepal
 - Suriname
 - 1 from civil society: BIC + silent CSO observers
 - 1 from Indigenous Peoples: Nicholas Soikan Meitiaki
 - 1 from private sector: Andrew Hedges

Working Group Process

- 9 conference calls + face-to-face meeting March 25
- 2 co- chairs for most calls and for workshop
 - John Goedschalk, Suriname
 - Duncan Marsh, The Nature Conservancy
- 8 background notes prepared by FMT to feed WG discussions
- WG page has all materials:
<http://www.forestcarbonpartnership.org/fcp/node/369>
- Product: Set of Recommendations from the WG to the PC in the form of proposed principles, called “elements”, for consideration at PC12, included in FMT Note 2012-8

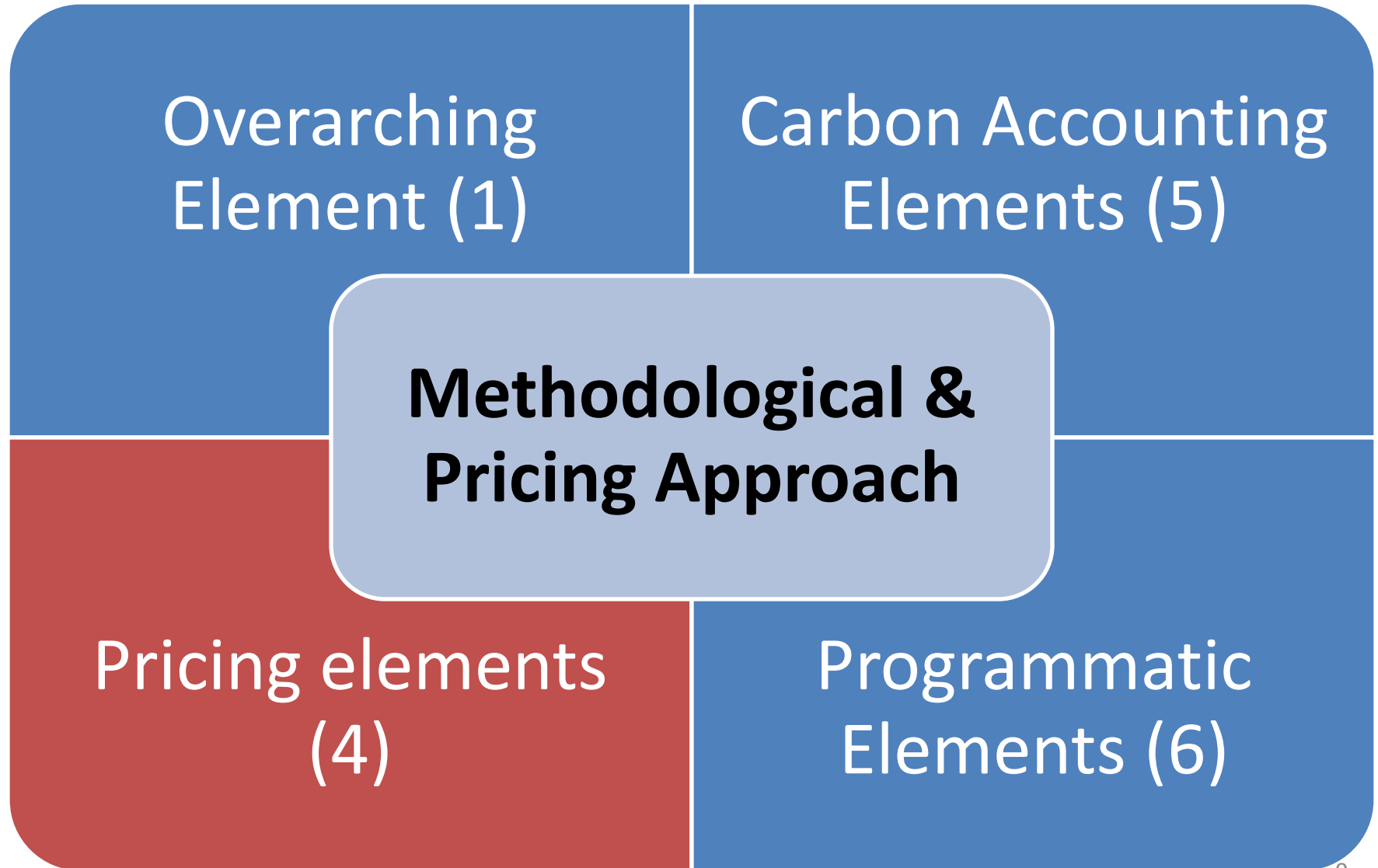
Process for Development of the Methodological Framework and Pricing Approach



Outreach to PC

- WG includes PC representation: 3 REDD+ Participants, 3 Financial Participants, and Observers
- WG sent its draft Recommendations to PC members; and provided opportunities for questions and answers ahead of PC12, through 3 conference calls:
 - **English (June 11): 7 PC members**
 - **French (June 12): 1 PC + 1 REDD+ country**
 - **Spanish (June 14): 4 PC members**
- Recommendations, all WG documents, and feedback comments are posted on FCPF web site, publically accessible
- PC workshop June 26th offers chance to further discuss the Recommendations

Working Group Recommendations: Overview



Element vs. Rationale

- The main output of the Working Group is the recommended elements.
- However, the WG felt it is important to include the rationale to reflect some of the thinking and reasoning.
- This allows the reader to better understand the intention of the Working Group, and ...
- Can be helpful in the next stages of the development of the methodological framework and the pricing approach.

Overarching Accounting and Programmatic Element: Consistency with UNFCCC principles

- “The Emission Reduction Program (ER Program) strives to be consistent with evolving UNFCCC decisions on REDD+, particularly guidance and principles in place at the time of ERPA signature, as relevant and feasible.”
- UNFCCC principles and guidance may be considered:
 - **Transparency**
 - **Consistency**
 - **Completeness**
 - **Accuracy**
 - **Safeguards**

Elements on Carbon Accounting (1)

“Element 1: Stepwise approach to reduce uncertainties

- ER Program data and methods are consistent with IPCC Tier 2 standards, and ER Programs should, by using conservative assumptions and quantitative assessment of uncertainties, be incentivized to reduce uncertainties associated with all aspects of accounting, inter alia, reference levels, monitoring, and reporting (i.e., such that reductions in uncertainty are rewarded by a corresponding upward adjustment in ER volume)”

“Element 2: Reference level

- ERs from an ER Program should be conservatively measured and reported relative to a transparently presented and clearly documented forest reference emission level (REL) or forest reference level (RL) for the ER Program area, following the guidance of the Carbon Fund Methodological Framework and informed by the emerging national REL/RL”

Elements on Carbon Accounting (2)

“Element 3: Consistency with monitoring system

- ER Programs shall monitor and report ERs and other non-carbon variables consistent with the emerging national forest monitoring system, using methods appropriate for ER Program circumstances, including community monitoring, that are transparently presented and clearly documented”

“Element 4: Address reversals

- ER Programs should identify potential sources of reversal of ERs (non-permanence); have the capacity to monitor and report any reversal of previously monitored and reported ERs; and have measures in place to address major risks of anthropogenic reversals for the ER Program area, to the extent feasible”

Elements on Carbon Accounting (3)

“Element 5: Address displacement

- Potential sources of domestic and international displacement of emissions (leakage) are identified by assessment of all drivers of land-use change relevant for the ER Program; and measures to minimize and/or mitigate the risk of displacement of domestic emissions are incorporated into ER Program design and the estimation and monitoring of ERs”

Programmatic Elements (1)

“Element 1: Endorsement & implementing entity

- The ER Program is endorsed by the national government (or governments, as appropriate) and is implemented by an entity (or entities) that has the capacity to implement the proposed REDD+ activities, potentially via a stepwise approach”

“Element 2: Scale & ambition

- The ER Program is ambitious, in that it demonstrates at a large scale the potential of the full implementation of the variety of interventions of the national REDD+ strategy, covering a significant portion of the territory”

Programmatic Elements (2)

“Element 3: Safeguards

- The ER Program meets World Bank social and environmental safeguards, promotes and supports the safeguards included in UNFCCC guidance related to REDD+, and provides information on how these safeguards are addressed and respected, including through the application of appropriate grievance mechanisms”

“Element 4: Stakeholder participation

- The design and implementation of ER Programs is based on and utilizes transparent stakeholder information sharing and consultation mechanisms that ensure broad community support and the full and effective participation of relevant stakeholders, in particular affected Indigenous Peoples and local communities”

Programmatic Elements (3)

“Element 5: Benefit sharing

- **The ER Program uses clear, effective and transparent benefit-sharing mechanisms with broad community support and support from other relevant stakeholders”**

“Element 6: Non-carbon benefits

- **The ER Program contributes to broader sustainable development. This could include, but is not limited to, 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. The ER Program should monitor and report on these non-carbon benefits as feasible, taking note of existing and emerging guidance on monitoring of non-carbon benefits by the UNFCCC, CBD, and other relevant platforms”**

Pricing Elements (1)

“Element 1: Fairness, flexibility and simplicity

- **Pricing should be fair and flexible, be kept as simple as possible, and protect both parties from extreme price fluctuations”**

“Element 2: Price structure

- **The ERPA price should be a combination of fixed and floating portions, where feasible”**

Pricing Elements (2)

“Element 3: Informed negotiation

- The ERPA price should be determined by negotiations between the CF Participants, as buyer, and the ER Program entity, as seller, based on their respective willingness to pay or to receive payment. This negotiation process should be informed by relevant information such as market surveys or transaction benchmarks”

“Element 4: Non-carbon benefits

- The ERPA price negotiation process offers an opportunity for non-carbon benefits to be taken into consideration, although there would be no systematic quantification of non-carbon benefits for pricing under the Carbon Fund”

Some Early Comments May Be Addressed in the Method. Framework, & ER Program Development

- **Some comments offer alternative text for Recommendation elements or rationales – and could be considered here.**
- **Other comments need be considered in another building block: e.g., in ER Program design, or ERPA negotiations.**
- **FMT will create a comments table and post it online, to keep track of comments, and signal their potential relation to other building blocks as needed**
 - **E.g., verification is not covered in Recommendations, and may be addressed, e.g., in the Methodological Framework, ERPA delivery, etc.**

Summary of Selected Initial Feedback: (1)

Accounting element 1

- **Comment: Text uses the term “reducing uncertainty,” vs. “improving accuracy”. Why was this choice made?**

Explanation: Both are valid, but there may be cases where improving accuracy of measurements may not be possible, but reducing uncertainty is. E.g., initially leakage may be identified, but not accounted. As MRV improves over time and leakage is accounted, the uncertainty of the expected emission reductions is reduced (without necessarily improving the accuracy of the measurements).

- **Comment: Better to require the optimum combination of IPCC approach for Activity Data (to determine land area affected) PLUS tier (2 or 3) for Emission Factors (tC/ha/y).**

Explanation: useful point worth considering.

Initial Feed back: (2) Accounting Elements

- **Comment: Accounting element 5 on addressing displacement (leakage) of emission reductions should also encourage mitigation of international leakage (in addition to domestic leakage), perhaps in the Methodological Framework.**

Explanation: The WG discussed and noted that UNFCCC does not require mitigation of international displacement for FREDD+, or other sectors; and REDD+ countries may have sovereignty issues.

- **Comment: Key drivers of deforestation largely should drive selection of ER Program activities, and be clearly linked to the REDD+ strategy.**

Explanation: The WG recognized that ER Programs would directly build on country R-PP analyses of drivers, and contribute to selection of Program activities.

- **Comment: Verification is not included as an element.**

Explanation: The WG discussed verification, felt it did not rise to the level of an element, but could be addressed in the Methodological Framework.

Initial Feedback: (3) Programmatic Element 3

- **Comment: Programmatic element 3 on Safeguards mentions a grievance mechanism, but does not prescribe how it would be implemented.**

Explanation: The element includes “the application of appropriate grievance mechanisms”. The WG felt that providing operational details was not necessary and could be overly prescriptive at this time.

Initial Feedback: (4) Programmatic Element 6 on Non-Carbon Benefits

- **Comment: non-carbon benefits always should be monitored and verified.**
Explanation: Accounting element 3 states monitoring of ER Programs shall be consistent with the emerging national forest monitoring system. If non-carbon benefits are taken into consideration in the price negotiation, they would need to be monitored. The WG felt that methodologies for quantifying non-carbon benefits vary widely in their level of development and use, and could be resource intensive.
- **Comment: ER Programs explicitly need to incentivize greater social legitimacy and ecological robustness of REDD+, and to identify natural forest areas to meet biodiversity safeguards.**
Explanation: This element supports country inclusion of non-carbon benefits into its ER Program, based on its own priorities in its national context.

Initial Feedback: (5) Pricing Element 3

- **Comment: How will CF ensure that ER Program entities with low capacity and experience in this type of negotiation will not be disadvantaged in the negotiations?**

Explanation: The FMT in the negotiations will support and provide training to, as needed, both the buyers and the sellers. Specific activities, such as capacity building workshops, are envisioned for all interested parties before the ERPA negotiations.

- **Comment: Pricing element 2 on price structure allows “room for adjustments”, which should simply refer to the floating portion of the price**

Explanation: yes, this refers to the floating portion of the price, not the whole approach.

Initial Feedback: (6) Pricing Elements 3 and 4

- **Comment: Pricing should include different types of performance-based payments and performance assessment models, rather than only one approach.**

Explanation: ER Programs and ERPA negotiations could result in experimentation with different approaches. The structure of the CF and the WG Recommendations support flexibility in approaches for country ER Programs and monitoring of performance.

- **Comment: Pricing element 4 on non-carbon benefits should allow systematic quantification of such benefits for pricing purposes, which should take these benefits into account.**

Explanation: The WG discussed this topic at length, but decided that:

- quantifying non-carbon benefits is not feasible with current methods
- Developing such methods is not feasible in a limited pilot program
- REDD+ countries' have very little capacity to do such quantification and monitoring.

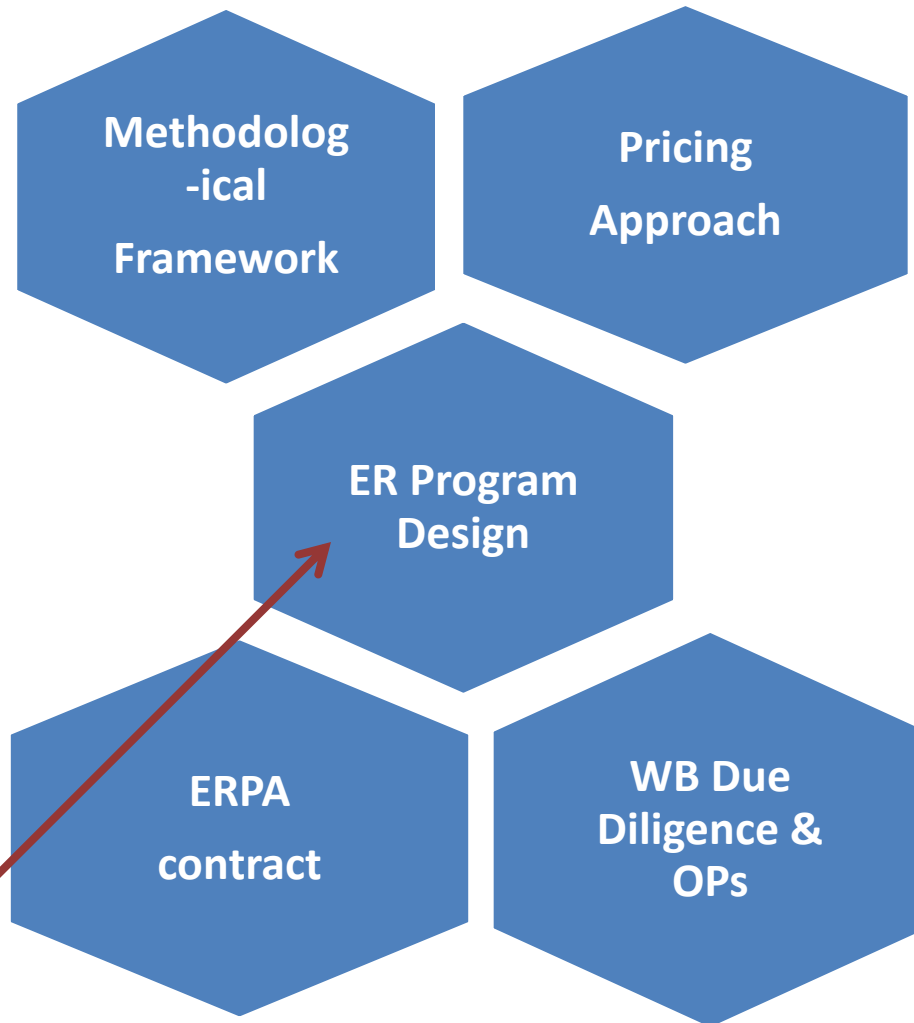
Example of Relation of Method. Framework & Pricing Approach To ER Program (Country A: 1)

Country A's ER Program stresses:

- Single integrated Program in one province
- Stakeholder process in each village
- Community-led MRV
 - Protection and expansion of high biodiversity values

Country proposes to implement via:

(1) Expand agric. productivity via intensification on crop lands



Example of Relation of Method. Framework & Pricing Approach To ER Program (Country A: 2)

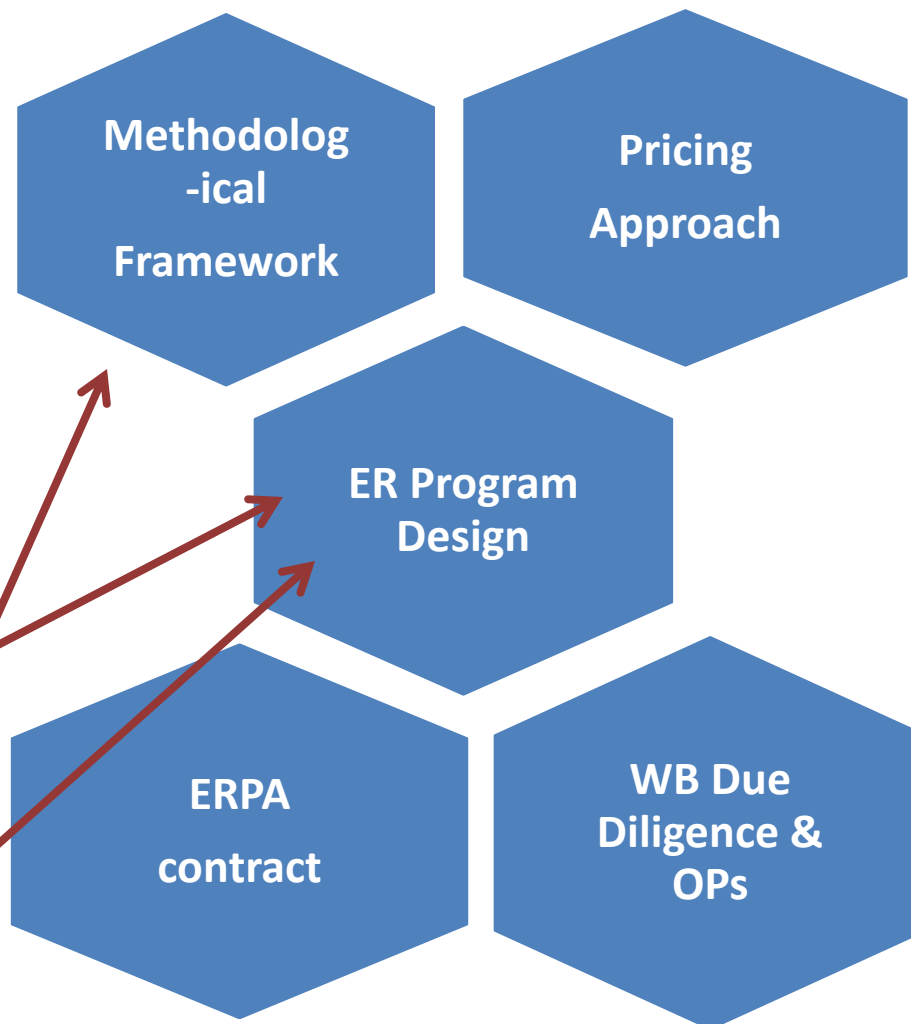
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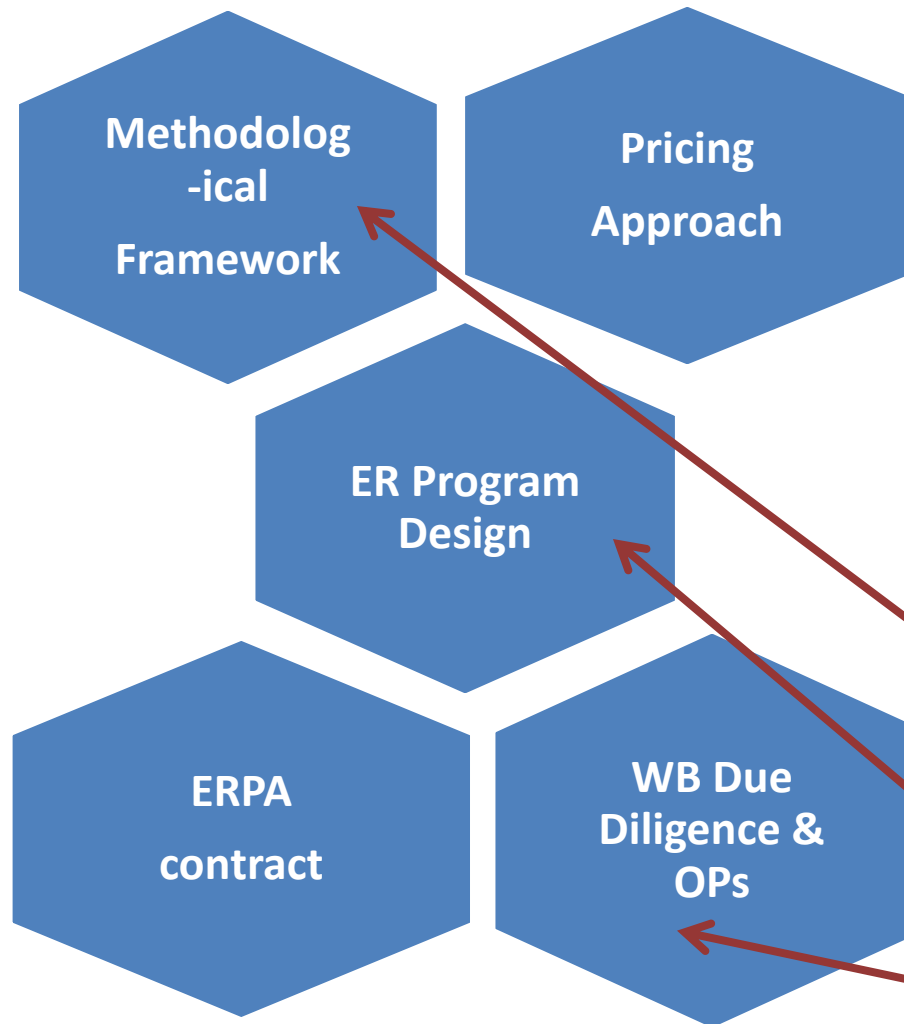
Country proposes to implement via:

(2) Policy reform to expand riparian forest buffers

(3) Training villages in MRV methods, including traditional knowledge



Example of Relation of Method. Framework & Pricing Approach To ER Program (Country B: 1)



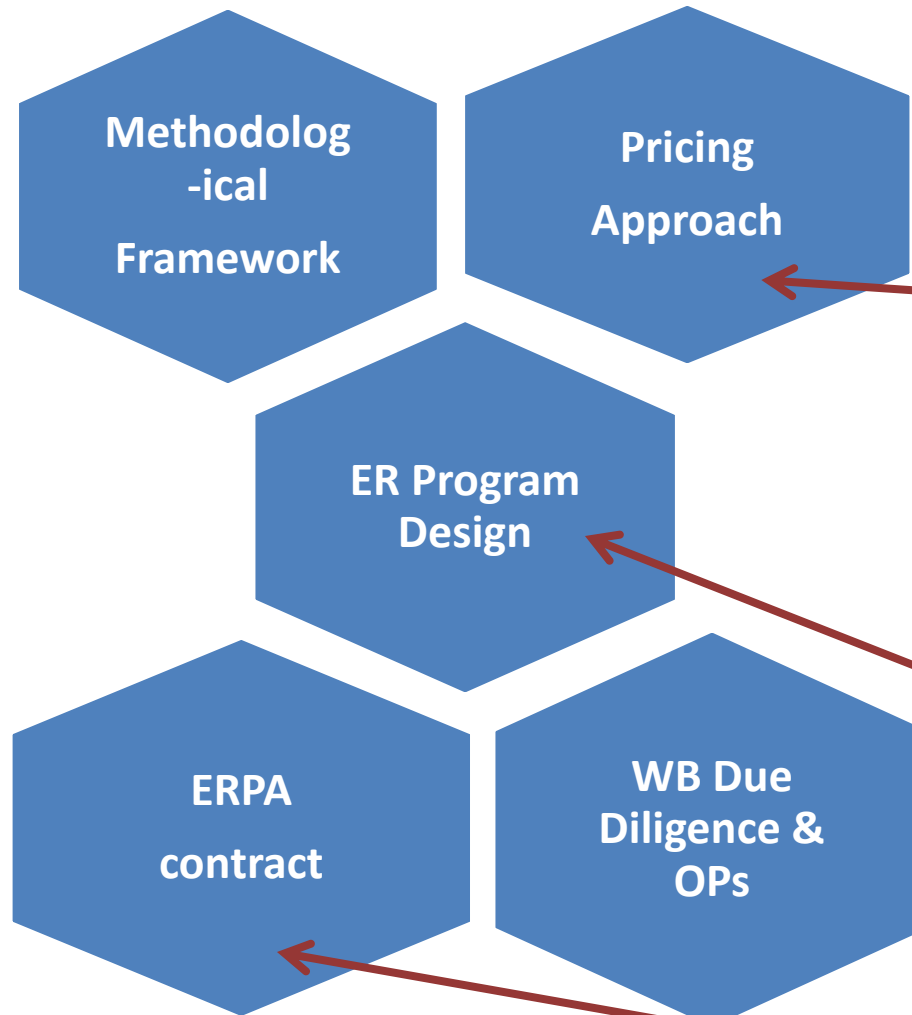
Country B Seeks:

- Focus on reducing 2 major drivers of deforestation.
- Mosaic of Indigenous Peoples + other lands in Program.
- Benefit sharing directs revenues to IP villages.

Country B proposes to implement via:

- (1) Remote sensing analysis of drivers, to select best lands & address leakage.
- (2) Village stakeholders participate in selection of drivers & lands for Program

Example of Relation of Method. Framework & Pricing Approach To ER Program (Country B: 2)



Country B Seeks:

- Focus on reducing 2 major drivers of deforestation.
- Mosaic of Indigenous Peoples + other lands
- Benefit sharing directs revenues to IPs .

Country B proposes to implement via:

(3) Developing IP community GIS capacity to model drivers, land use change, carbon revenue generation

(4) Training IPs in contract negotiation to maximize carbon revenues in ERPA.

Summary

- These recommended elements result from months of concerted discussions, conference calls, and background papers.
- They reflect a wide diversity of views from the members of the WG, and emerge from a continual commitment by the WG to search for compromises on thorny issues.
- Rome wasn't created in a day. These elements are the first step in many towards **A STRONG FRAMEWORK FOR investments In quality operational ER Programs in REDD+ countries.**