



Forest Carbon Partnership Facility

Update on the Carbon Fund: Proposal for a Methodological Approach

for Carbon Fund Videoconference
September 1-2, 2011

Outline of Presentation

1. Rationale for the proposed Standards
Approach to methods for Carbon Fund (CF)
2. Proposed principles and elements for CF
Methodology Framework
3. Presentation of proposal for 3 quality stages
4. Request for feedback at this meeting, and
Next Steps timeline

Guidance from CF Participants in Barcelona and Oslo Relevant to Methods Framework

- **Analyze UNFCCC principles, and any gaps that need to be filled to meet needs of the FCPF Carbon Fund**
- **Focus on technical aspects of Emissions Reduction (ER) Programs (REL/FRL, MRV, ER estimation) . . .**
- **But address broader aspects to extent they are critical to ER programs or contained in Issue Note (e.g., social and environmental benefits)**
- **Draft methodological framework to be presented to the PC in Berlin**

UNFCCC Core REDD+ Elements: Foundation of Both FCPF Readiness Fund R-PPs, and Carbon Fund ER Programs

UNFCCC Core Elements

National strategy or action plan

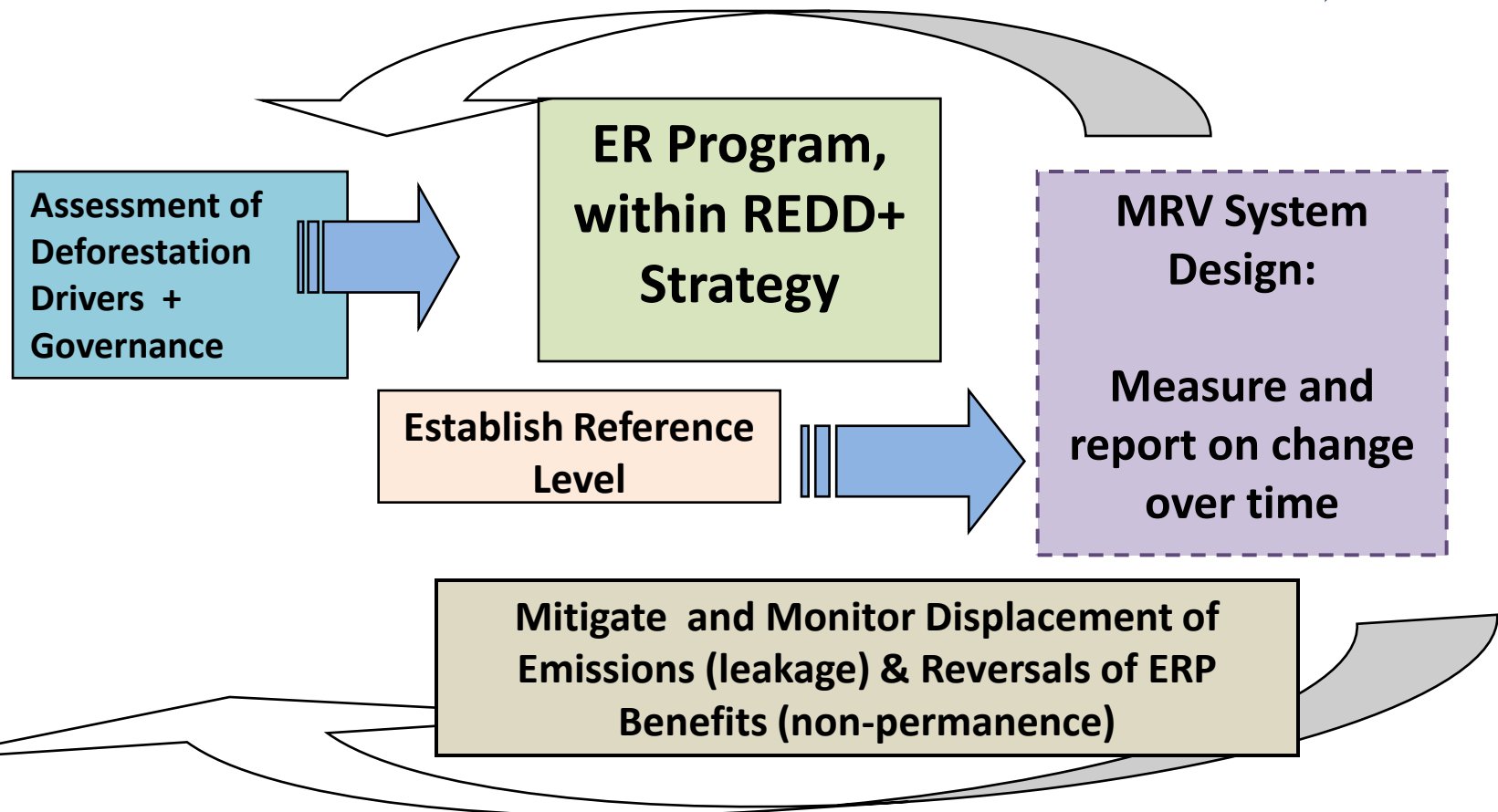
National forest reference emission level and/or forest reference level

National forest monitoring system

System for providing information on safeguards

Both REDD+ National Readiness, and Methods for CF Emissions Reduction Programs, Require Interlinked REDD+ Components

Stakeholder Consultations



High quality ERs will require transparent linkages and methods for estimating the Reference Level, and MRV of ERs from the REDD+ Strategy.

FMT Proposal: 1 Use a Standards Approach to Define Quality of ERs, and Not Develop CDM-Like Methodologies

- **Readiness Fund successfully used approach of setting qualitative standards for each of 10 R-PP subcomponents**
 - Quality of R-PPs submitted steadily increased over time, as standards tighten and countries submit creative solutions to key issues in the R-PP
 - Allows countries to drive the R-PP and REDD Strategy processes, and to tailor their proposals to country circumstances and capacity.
- **Some CDM and voluntary market project developers, and some REDD+ countries, find use of very detailed methods difficult:**
 - Data requirements are heavy, and country capacity limited
 - Likely difficult to scale up existing approaches to large Emissions Reductions (ER) Programs, or national scale
- **Developing new methods takes about 3 years?, requires in-country capacity building, and is UNFCCC/IPCC role**

FMT Proposal: 2 Rationale for a Standards Approach to CF Methods

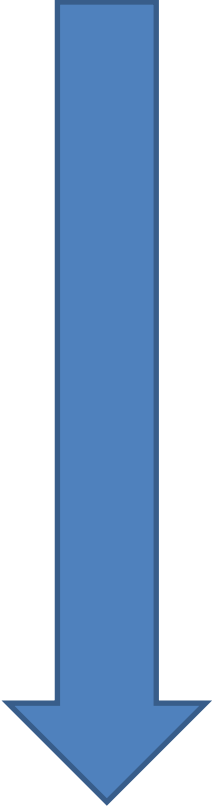
- **Two basic approaches to assessment of ERPs against CF standards:**
 - Pass/fail for ER Program
 - Differentiated quality of ERs and/or ER Programs, into quality levels or “stages”
- **Logic of single quality and single price for ER Program GHG benefits contradicts the existing wide variety, quality, and price of carbon finance projects**
 - Single quality and price assumes single carbon asset that is fungible with other non-carbon GHG ERs (but is not the case)
- **Country R-PPs in Readiness Fund have widely different institutional arrangements, MRV and REDD Strategies**
- **By differentiating quality and risk (and thus price of ERs), both REDD+ country suppliers and investor/funders maximize flexibility and reward higher quality ERs.**

Standard-Driven Overall Approach:

Principles → Standards → Indicators → Methods

Concept of Approach:

- UNFCCC will ultimately set methods for REDD+, but in the future.
- CDM, VCS and other existing methods very complex for a national scale.
- FCPF has used standards approach to assess R-PPs successfully.

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- Principles: State the desired outcome, and codify the intent of a standard for evaluating a program.
 - Standards (or criteria): Identify the conditions that need to be met to deliver on a principle. The benchmark against which a program is evaluated.
 - Indicators: Quantitative or qualitative parameters that can be achieved and can be verified. The “metric” for evaluating the standard.
 - Methods: Agreed analytic approaches or tools used to generate the data and estimates of parameters (like forest cover change over time) that make up indicators.

UNFCCC Principles in Decisions Relevant to CF: 1

Measurement and Reporting Principles

Principle	Definition [COP 16 REDD+ text in red]	UNFCCC Decision	Context
Transparency	<p>“[national forest monitoring systems] ... are transparent and their results are available and suitable for review as agreed by the Conference of the Parties “</p> <p>[“Robust and transparent.. for the monitoring and reporting of the activities referred to in paragraph 70”]</p>	<p>Decision 4/CP.15</p> <p>Decision 1/CP.16</p>	<p>Estimates from monitoring system</p> <p>National forest monitoring system</p>
Relevance, Consistency, and Completeness	<p>Relevancy: select the GHG sources and sinks, data, methods, criteria, and assumptions appropriate to the intended use of the reported information</p> <p>Consistency : Use data, methods, criteria, and assumptions that allow meaningful and valid comparisons</p> <p>Completeness: include all relevant GHG emission and removals that may affect the accounting and quantification of GHG reductions. Include all relevant information to support compliance with requirements.</p>	<p>Decision 4/CP.15</p> <p>[no COP 16 text]</p>	Estimates from monitoring system
Accuracy	<p>“Provide estimates that are transparent, consistent, as far as possible accurate, and that reduce uncertainties, taking into account national capabilities and capacities”</p>	Decision 4/CP.15	Estimates from monitoring system
Measurable and reportable consistent with reference level	<p>“national forest reference emission level and/or forest reference level or, if appropriate, as an interim measure, subnational forest reference emission levels and/or forest reference levels”</p> <p>[footnote omitted]</p>	Decision 1/CP.16	<p>Monitoring, reference level, subnational activities</p>

UNFCCC Principles Relevant to CF: 2

Other Principles

Principle	Definition [COP 16 REDD+ text in red]	UNFCCC Decision	Context
Address reversibility and displacement	“Actions to address the risks of reversals; actions to reduce displacement of emissions”	Decision 1/CP.16	REDD+ activities
Integration with national REDD+ program	<p>Integration with national REDD+ program: Demonstrated national support for ER program, and capacity for program to be represented in national reference level and MRV systems.</p> <p>Country-driven, consistent, and results-based : “undertake in accordance with national development priorities, objectives and circumstances and capabilities and should respect sovereignty”</p>	<p>Decision 4/CP.15</p> <p>Decision 1/CP.16</p>	<p>Estimates from monitoring system</p> <p>For REDD+ activities generally</p>
Provides Additional Benefits	“[REDD+ actions are] used to incentivize the protection and conservation of natural forests and their ecosystem services, and to enhance other social and environmental benefits”	Decision 1/CP.16	Safeguards
Verifiable	GHG reductions must result from activities that have been verified on an ex post basis. Verification requires third-party review of monitoring data for a project to ensure the data are complete and accurate.	[COP REDD text silent]	Estimates from monitoring system

Other Principles of UNFCCC or Other Standards, But Not Proposed for Carbon Fund

Principle	UNFCCC or IPCC GPG (Red = COP16 text)	VCS	CAR	EU ETS MRV
Conservativeness: Use conservative assumptions, values, and procedures to ensure that GHG emissions reductions or removals enhancements are not over-estimated	IPCC GPG	★		
Additional: GHG reductions must be additional to any that would have occurred in the “Business as usual” scenario			★	
Full and effective participation: Address the drivers of deforestation and forest degradation, land tenure issues, forest governance issues, gender considerations and the safeguards ensuring the full and effective participation of relevant stakeholders, inter alia indigenous peoples and local communities;	Decision 1/CP.16, for Developing and implementing national strategies or action plans			
Phase wise implementation: Begin with the development of national strategies or action plans, policies and measures, and capacity-building, followed by their implementation and evolving into results-based actions that should be fully measured, reported and verified	Decision 1/CP.16, for REDD+ activities			
Cost effectiveness. Monitoring and reporting of emissions shall aim for the highest achievable accuracy, unless this is technically not feasible or will lead to unreasonably high costs.				★

From UNFCCC Principles, Six Methodological Framework Elements Are Proposed That Affect the Quality of Emissions Reductions

Proposed ERP Elements

- 1) **Data Quality: Accuracy, IPCC Tier, etc.**
- 2) **Methods: Capacity to measure and report ERs; payments for ERs relative to an agreed reference emission level (REL); etc.**
- 3) **Consistency with national reference emission level (REL) and MRV system**
- 4) **Measures to address risk of reversals of ERs (non-permanence)**
- 5) **Measures to address risk of displacement of emissions (leakage)**
- 6) **Social and environmental benefits: biodiversity , rural livelihood, etc.**

Proposed CF Methods Elements Reflect CF Issue Note ERP Characteristics: 1

Proposed Methods Element	C F Issue Note Characteristic (using Note numbering)
1. Data Quality (including transparency)	[Issue Note silent]
2. Methods	<p>2. “Be based on performance, i.e., payments for ERs relative to an agreed reference emission level (REL)...”</p> <p>10. “Demonstrate capacity to measure and report on ERs. The system should be consistent with the (<u>emerging</u>) national REDD+ MRV system”</p>
3. Consistency with national reference emission level (REL) and MRV system	11. “Be consistent with the national REL/FRL, or with the national approach establishing the REL/FRL”
4. Measures to address risk of reversal of ERs	<p>3. “Generate high-quality and sustainable ERs (including ... minimization of the risk of non-permanence)”</p> <p>13. “Provide for an assessment of and measures to minimize the risk of ... reversals (non-permanence)”</p>

Proposed Elements Reflect Relevant CF Issue Note Characteristics : 2

Proposed Methods Element	C F Issue Note Characteristic (using Note numbering)
5. Measures to address risk of displacement of emissions (leakage)	13. “Provide for an assessment of and measures to minimize the risk of ... displacement of emissions (leakage)”
6. Social and environmental benefits	3. “Generate high-quality and sustainable ERs (including environmental and social benefits”

Other Characteristics of ER Programs That Affect the Quality of ER Programs

(From Carbon Fund Issues Note, February 9, 2011)

Covered in Methodology Framework:

6 elements

Other Characteristics of ER Programs
(not covered in Methodology Framework):

Submitted by government-approved entity

Consistent with emerging compliance standards of UNFCCC and other regimes

Transparent stakeholder consultations

Clear and transparent benefit-sharing mechanisms

Generate learning value

For Subnational ER Programs:

Undertaken at a significant scale... in line with national REDD+ management

Consistent with (emerging) national REDD+ strategy

Integrated in national institutional framework managing sub-national programs

UNFCCC Principles Compared to Proposed CF Methods Elements

UNFCCC Principle	CF Methods Elements
Transparency	<ol style="list-style-type: none"> 1. Data quality 2. Methods
Relevance, Consistency, and Completeness	<ol style="list-style-type: none"> 1. Data quality 2. Methods
Accuracy	<ol style="list-style-type: none"> 1. Data quality
Measurable and reportable consistent with reference level	<ol style="list-style-type: none"> 2. Methods 3. Consistency with national reference emission level (REL) and MRV system
Address reversibility and displacement	<ol style="list-style-type: none"> 4. Measures to address risk of reversals 5. Measures to address risk of displacement
Integration with national REDD+ program	Other characteristics: Integrated in national institutional framework managing sub-national programs
Provides Additional Benefits	<ol style="list-style-type: none"> 6. Social and environmental benefits
Verifiable	[Silent]

Relationship of UNFCCC Core REDD+ Elements vs. Carbon Fund ER Program Elements & Characteristics

UNFCCC Core Elements	Related Carbon Fund ER Program Characteristics	Carbon Fund Characteristics for sub-national programs
National strategy or action plan	ER Program	Consistent with national REDD+ strategy
National forest reference emission level and/or forest reference level	Payments for ERs relative to an agreed reference emission level (REL) and/or forest reference level (FRL)	Consistent with the national (approach for) REL/FRL
National forest monitoring system	Demonstrate capacity to measure and report on ERs	Consistent with the (<u>emerging</u>) national REDD+ MRV system
System for providing information on safeguards	<ul style="list-style-type: none"> • High-quality and sustainable ERs • Transparent stakeholder consultations • Clear and transparent benefit-sharing mechanisms 	Assessment of and measures to minimize the risk of leakage, reversals and other relevant risks

Linkages Among Element, Standard, and Indicators for Stages: Illustrative Example 1

- Proposed Standards Approach: Indicators can have multiple values which are linked to quality tiers, called “stages”, for Emission Reductions.
- These quality tiers can be linked to pricing (discussed tomorrow).

Element (example 1)		Potential Standard <i>(very early draft, as <u>example only</u>)</i>
3. Consistency with national reference emission level (REL) and MRV system	D R	ERP measurement and reporting methodologies clearly defined. Relationship between the ERP and national forest reference emission level and/or forest reference level --or subnational forest reference emission levels and/or forest reference levels (as an interim measure)-- is clear, methodologically consistent, and can be accurately reported.
<i>Indicator for Stage 1 Quality:</i>	A	Description of measurement and reporting methods and relationship to national methodology, with some quantified results presented.
<i>Indicator for Stage 3 Quality:</i>	F T	Relationship to national methodology is methodologically consistent and robust. Early reporting capacity has been demonstrated. Quantified examples or results presented from both the ERP and the national system demonstrate clear consistency. <i>Provisional Guidance on Methods: Analysis of historical land cover change utilizes at least 3 data points over at least 10 and not more than 20 years, using consistent national forest inventory and/or remote sensing analysis.</i>

Linkages: Illustrative Example 2

Element (example 2)	Potential Standard <i>(very early draft, as <u>example only</u>)</i>
<p>4. Measures to address risk of reversals of ERs</p>	<p>D</p> <p>ERP provides evidence that methods and actions have been identified and included that address the risk of reversal of GHG benefits, from anthropocentric or natural causes. The methods and actions are methodologically consistent with the rest of the methodology and MRV systems, and can provide accurate detection and reporting of any major reversals.</p> <p>R</p>
<p><i>Indicator for Stage 1 Quality:</i></p>	<p>A</p> <p>Description of methods and actions is provided that results from consideration of the potential for reversals, by source of potential reversible. Methods and actions are in preliminary form, but not yet capable of providing credible replacement tonnes for any reversals that occur.</p>
<p><i>Indicator for Stage 3 Quality:</i></p>	<p>F</p> <p>A buffer of reserved tonnes of ER credits is created and credibly organized methodologically and institutionally that is capable of providing buffer tonnes for any reversals with high confidence. Or, a comparable method and action is in place.</p> <p>T</p> <p><i>Provisional Guidance on Methods: One of the 3-4 best-understood methods for addressing reversibility listed in FCPF CF guidance note # xx is utilized appropriately. A reversal risk analysis has been applied.</i></p>

Illustrative Description of the 3 ERP Stages

(very preliminary)

- Stages offer simple, finite range of differentiated products for funders/investors in ERPs
- Provide incentives for continual improvement of ERP quality, and for rewarding progress along a country-defined REDD+ capacity building roadmap.

Stage 1 ERP:

- Early initial development of ER Program, activities, and methods.
- Relatively significant program and investment risks.
- ERP price reflects Stage 1 quality.

Stage 2 ERP:

- Reasonably well-developed ER Program, activities, and methods.
- Moderate program and investment risks.
- ERP price reflects Stage 2 quality.

Stage 3 ERP:

- Well-developed ER Program, activities, and methods.
- Minimal program and investment risks.
- ERP price reflects Stage 3 quality.

Assessment of ER Program Submissions

- **FMT proposes CF use technical review process to determine whether submitted ER programs are consistent with the principles, and meet CF standards/elements.**
 - This approach is consistent with Technical Advisory Panels used in FCPF Readiness Fund
- **Offers countries maximum flexibility in ER Program construction and presentation**
- **Other possible approaches:**
 - CF participants assess on own, or contract out assessment?

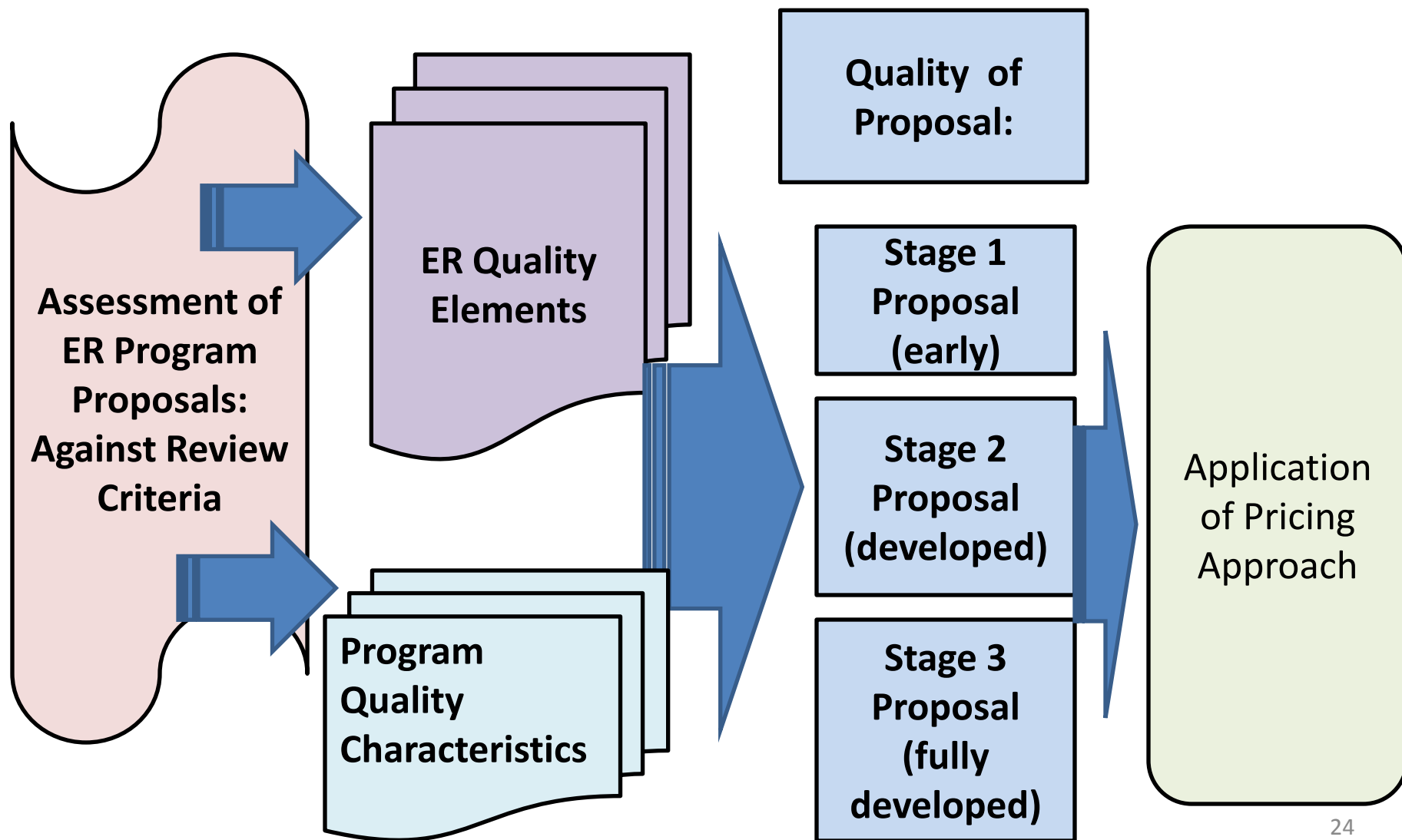
Assessment and Weighting of Elements Can Sort ERPs into 3 Quality Classes, or “Stages”

Elements of ERPs	Assessment of Element Quality	Weighting of Element (example)
1) Data Quality	Low, Medium or High	25 %
2) Methods	Low, Medium or High	25 %
3) Consistency with national REL and MRV system	Low, Medium or High	15
4) Measures to address risk of reversals of ERs	Low, Medium or High	10
5) Measures to address risk of displacement	Low, Medium or High	10
6) Social and environmental benefits	Low, Medium or High	15
TOTAL		100 %

ER Programs Assessment Is Combination of ER Quality Elements, ER Program Characteristics Affecting Quality, Pricing Approach, and World Bank Due Diligence



Overview of Linkage between Carbon Fund Methodological Framework and Pricing Approach



ER Stage Assessment Examples: 1

For ER Quality Elements

Example A: Arangle River ER Program:

- **REDD+ Activities:** Landscape Management of Cropland Expansion, & Immigration Frontier Deforestation.
- **Data:** Uses IPCC Tier 1 and Tier 2 default data. New sampling started.
- **Methods:** emerging methods for landscapes.
- **Government endorsement of Program is uncertain. Risks seem high.**

Example B: Borongel Province ER Program:

- **REDD+ Activities:** regional highway expansion via planned development activities and high-productivity agriculture; SFM in well-managed forests.
- **Uses mostly in-country IPCC Tier 3 data, with good time series and coverage.**
- **Methods:** forest inventory, and well-known model validated with 12 years of data.
- **Country is leader in subnational to national REL methods.**
- **Clear recognition of Program by government, which is a partner.**
- **Low risk overall.**

ER Stage Assessment Examples: 2

Elements of ERPs	Weighting of Element in Assessment	ERP A: Stage 1 Quality	ERP B: Stage 3 Quality	Score = Quality * Weight	
				ERP A	ERP B
1) Data Quality	25 %	Low = 10	High = 30	2.5	7.5
2) Methods	25 %	Med. = 20	High = 30	5	7.5
3) Consistency with national REL and MRV system	15 %	Med. = 20	Med. = 20	2.25	2.25
4) Measures to address risk of reversal	10 %	Low = 10	Med. = 20	1	2
5) Measures to address risk of displacement	10 %	Low = 10	High = 30	1	3
6) Social & environmental benefits	15 %	Low = 10	High = 30	1.5	4.5
TOTAL	100 %			13.3	26.8

Proposed Timeline for CF Methodological Framework Development

Step in Process	Date	Product	Delivered
VC Consultation	Sept. 1-2, 2011	Guidance to FMT for Berlin	
PC and CF meetings, Berlin	Oct. 17-21, 2011	Presentation: Zero order approach to Methods	
C F working group on Methods?	Late Oct. – March, 2012? Perhaps 2-3 VCs or calls	Feedback to FMT on ongoing methods drafts. Resolve key issues.	
Draft full Interim Methodology	June 1 st , 2012	Methodology on web for comments	
CF discussion and approval of Methodology	Late June PC/CF meeting, TBD	Resolve final issues, approve Interim Methodology	

FMT Seeks feedback from the Fund Participants on Key Design Issues

1. Are you comfortable with the proposed approach of developing principles, standards/elements, and indicators (and not detailed methods) ?
2. Are the proposed elements a reasonable basis for the methodological framework for the Carbon Fund?
3. Are you comfortable with the standards/elements covering ER Programs emissions reductions + the other elements + Issue Note characteristics?
 - a. Is there any principle you want to eliminate, or to add?
4. Are you comfortable with this approach, in the absence of progress in the SBSTA work programme on REDD+ decided in Cancun, and eventual UNFCCC methods guidance?
5. Does the 3-stage approach to the quality of ER Programs make sense?
6. Is the relationship to the Pricing Approach reasonable?
7. Can you provide guidance on the balance between the need for harmonization across different ER Programs, vs. flexibility for countries?
8. Is the proposed process and timeline for development of a framework reasonable?