

**FCPF Carbon Fund  
Methodological Framework Issue Papers  
Submission by the United States**

Please find below views of the United States on the questions posed by the FMT on the Methodological Framework for the FCPF Carbon Fund, as well as a few additional thoughts where relevant. We would be happy to provide additional detail if requested.

**Issue Paper 1: General Approach for MF, and scope of activities covered:**

- We think a standard and criteria approach is appropriate, and recognize that different levels of guidance for some standards may be appropriate. As one example from a different sector that might serve as a model for a useful approach (standard, criteria, minimum requirements where appropriate), please see the Roundtable on Sustainable Biofuels standard: <http://rsb.epfl.ch/page-67254.html>

**Issue Paper 2: Reference Levels; and additionality.**

- We believe that each funder or funding mechanism should be able to establish baselines for incentives, which may be different from the Forest Reference Emission Levels/ Reference Levels (REL/RLs) which will be proposed under the UNFCCC. For the purpose of this submission we will refer to Carbon Fund Crediting Baselines to distinguish them from the UNFCCC REL/RLs.
- We do think that CBs should be based on historic data, and should cover the same program area. They should include all significant activities, pools and gasses.
- Given the short ERPA time period, we believe that 5 or 10 year reference periods would be appropriate, though some flexibility may be warranted here to allow program proponents to draw on work they are already doing to develop national and/or sub-national REL/RLs under the UNFCCC.
- However, if there were significant changes (either increases or decreases) in emissions during the reference period, this should be taken into account, likely by choosing a shorter reference period which more accurately reflects the more recent emissions scenario.
- The VCS JNRI has interesting thinking on how to link sub-national and national baselines.
- We do not anticipate many exceptions to allow for “adjustments for national circumstances” to the historic CB, if any. We might want to consider minimal technical adjustments required based on the data available, for example. Crediting Baselines might also take into account policies already passed or investments already funded but not yet implemented, or existing national deforestation commitments. We do not think broad projections of BAU are necessarily useful, as these are easily manipulated to set a baseline that might actually allow increased deforestation while still receiving payments. In order to maintain environmental integrity, the default should certainly be to err on the side of no adjustments to the historic data, rather than to allow a high degree of flexibility in determining “national circumstances.”
- We should consider how high forest cover, low deforestation countries (HFLD) should be addressed. One example that has been proposed would be a CB in between the historic baseline and the regional average. (This may require the establishment of a “regional baseline” parallel to the Global Baseline approach, something which the TAP may take into consideration in their assessment.)
- We do believe mapping of program areas is important. Mapping may also be important to achieve any desired co-benefits or to meet stated safeguards. We also believe that remote

sensing will be necessary for monitoring, and will need to be combined with *in-situ* data collection in most cases.

- Given the short time period of the ERPAs in the FCPF (likely no more than 5-6 years), we do not believe the RLs should be updated. If the ERPA period were to be extended, a readjustment might be warranted.
- If the CB based on historic data were used with no/ minimal adjustments, this would be the appropriate baseline for crediting. However, if CBs with substantial adjustments were somehow allowed, we would expect to see a much stricter “crediting level.” Where countries have established national forest-related emissions or forest cover targets that are being addressed with domestic funding, this could be an acceptable downward adjustment of the CB.
- We believe uncertainties and risk should be dealt with appropriately (for example through a buffer and/or insurance), not by adjusting the CB.
- If the CB is based on historic data and already planned/ approved activities, we might consider anything beyond this is as additional.

**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:**

- We believe a minimum level of accuracy will be necessary, and would appreciate an assessment by the TAP of the tradeoffs between accuracy and cost for monitoring and MRV. (Some of the assessments done by Costa Rica in their national workshops may be useful here.) This is important in part to build the credibility of REDD+ results, so the emissions reductions resulting from REDD+ may one day be fungible with results from other sectors. We should strive for systems in which known uncertainty (error) in measurements is not greater than expected reductions in net emissions.
- We do not believe that being feasible for all REDD+ countries at this point in time is a necessary criterion, because the Carbon Fund is expected to be accessed by pioneering leaders, and because the quality of monitoring and MRV efforts will likely improve as approaches and technologies are tested and widely deployed.
- We would expect the Program monitoring system to employ the same definitions, protocols, methodologies, modeling, etc as the national forest monitoring system (NFMS) where possible, so that it might serve as a pilot or building block for the NFMS.
- While Program proponents should be encouraged to improve the quality of MRV by taking a stepwise approach beyond the minimum standard, given the short time period of an ERPA we do not believe this should be mandated.
- Non-carbon benefits are being monitored for a number of different purposes already (e.g. social issues and ecosystem health for domestic programs, biodiversity for the CBD, forest health for the International Tropical Timber Organization). We believe that these existing systems can provide much of the relevant data on non-carbon benefits. The U.S. submission to the UNFCCC on Safeguard Information Systems provides some additional thinking in this area (<http://unfccc.int/resource/docs/2012/sbsta/eng/misc09.pdf>).
- Independent third party verification of emissions reductions should be required.
- A system for tracking REDD+ units (tons of CO<sub>2</sub>e) should be required. If this is done at a national level, there must also be a system for tracking the transaction of units across international boundaries. As it is unlikely that all countries with ER Programs will have national systems for tracking units, an interim centralized registry including ER Program credits could be considered, to eventually be replaced by national unit registries or a permanent centralized unit registry.

**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:**

- Because the causes of leakage will vary greatly from program to program, we believe there should be some flexibility in how leakage is assessed.
- Consistent with Accounting Element 4, ER Programs should be required to identify potential sources of leakage outside the Program area (international, and national if the ER Program is subnational in scale). The ER Program must include measures to mitigate potential national leakage, and should also take measures to at least minimize identified international leakage where possible. Not addressing identified leakage could create perverse incentives.
- We believe there will be substantial learning value to identifying, tracking, and addressing potential leakage from the ER Programs, and that this may help us in eventually quantifying international leakage in a broader system.
- We believe a buffer will be needed to address any net reversals occurring within the Program area. Our initial belief is that Program-level buffers would be most appropriate, but we would be interested in a TAP assessment of the value of pooled or “two-tier” (pooled plus Program-level) buffers.
- While every effort should be made to ensure permanence (encouraging secure tenure of natural resources; programs, institutions and strategies with extended lifetimes; subcontracts extending far beyond the ERPA period), we are unsure the Carbon Fund can address the risk of reversals beyond the life of the ERPA. As the Carbon Fund is a short-term pilot, this is different than what we might expect from longer-lived full programs. We would appreciate an assessment of the legal options available here.
- However, ER Program proponents, which are most likely permanent institutions, will have additional measures available to them, for example long-term contracts with legal recourse for breach of contract or surviving provisions written into the contract. The proponents should be expected to use all reasonable measures possible to ensure permanence.
- ER Programs should compensate for reversals through the use of units from the buffer. However, if reversals are intentional, for example due to a change in policy that leads to an increase in deforestation, additional liability may be appropriate.
- We believe ER Programs that are actually designed to address the drivers of deforestation through policy change, changes in economic strategies, increase in secure land (and tree) tenure, etc are more likely to be successful in the long run (have higher permanence) than those that depend largely on direct payments to land users, as these payments are likely to be finite. We also think Programs with diversified financing strategies are most likely to be successful, including potentially transitioning from carbon funding to other revenue sources in the long term. In other words, the focus needs to be on change in the underlying systems, as opposed to short-lived incentive measures.

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

- We believe World Bank safeguard policies and instruments plus the UNFCCC Cancun safeguards (decision 1/CP.16 Annex 1) are appropriate. It would be helpful to understand how the World Bank safeguards have been previously applied and assessed at a country scale (for example through DPLs or sectoral lending).

- We agree that where possible, reporting on safeguards through one channel (the safeguard information system) is desirable and should be encouraged. However, these systems may not be designed to provide the type of reporting on World Bank safeguards required by the Bank. If this integration is to be encouraged, it would be good to encourage countries to consider integration from the early stages of the development of the SIS.
- We would be interested in REDD+ countries' opinions of the value and drawbacks of integrating World Bank safeguards reporting into their 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:**

- While the equitable distribution of benefits is an important part of Programmatic Element 5, we are unsure that standardized best practices could be identified given the wide range of Program designs we are likely to receive, and the very different socioeconomic contexts of REDD+ countries. However, the broad community support, and support from other stakeholders, will obviously be important in making this possible.
- We believe at a minimum ER Programs should provide an analysis carbon rights and land/ tree tenure, including known uncertainties that might lead to conflict or program. This should also include an explanation of how the benefit distribution is linked to tenure and carbon rights.
- We believe questions 4 and 5 in Issue Paper 6 fall outside the scope of the Methodological Framework (and also of the Pricing Approach). The Pricing Approach principles approved by the PC state "there would be no systematic quantification of non-carbon benefits for pricing under the Carbon Fund." ER Program proponents may want to look at the cost of addressing non-carbon benefits as part of their overall program design and budgeting work, and other donors might choose to quantify and pay for these benefits. However, this falls outside the agreed upon approach the Carbon Fund will follow.
- We reemphasize here that we do believe non-carbon benefits are a key part of program design; the Selection Criteria state that an ER Program must generate significant non-carbon benefits.

**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:**

- We believe ER Programs should be significant in scale, i.e. at the national or sub-national (state, provincial) level. Part of the value of the Carbon Fund is piloting what will become national systems; ER Programs that are much smaller than a state or province will lose much of their learning value in terms of doing REDD+ at this scale.
- We believe that all areas within the relevant jurisdiction should be included in an ER Program. (We would be interested in any well-substantiated arguments for the exclusion of specific areas, but have not yet seen a convincing justification that outweighs the reasons for including all areas.
- Among other indicators of capacity, we would expect an ER Program proponent to have demonstrated technical capacity, established relationships and institutional structure in the ER

Program area, demonstrable fiduciary capability (including meeting World Bank standards), legal personality, legal rights to implement an ER program as proposed, identified partnership or subcontracting arrangements necessary for implementation, strong linkages to the national REDD+ program (if not the national government).

- If an ER Program is subnational in scope, we would also expect to see clear progress forward in the implementation of the national strategy or action plan.
- We feel that the other questions posed under Issue Paper 7, while of high importance to any ER Program proponent, largely fall outside the scope of what should be included in the Methodological Framework. We suggest that these be reframed as questions which an ER Proponent itself should consider when deciding to present an ER Program and designing this Program.

#### **Other**

- Though the Issue Papers referenced address the Methodological Framework, we note that the Pricing Approach must also be developed. This will also require substantial thought from a number of experts, and from the Working Group.