FCPF Carbon Fund Methodological Framework

Discussion Paper #2

Scale and Scope

WORKING DRAFT FOR INPUT INTO AND DISCUSSION BY CARBON FUND WORKING GROUP.

Posted September 2013; Original January 2013

This paper is a work product of independent consultants, managed and revised by the FCPF Facility Management Team and World Bank staff, and does not reflect the opinion of the World Bank

About this document: The FMT commissioned the development of this series of about a dozen topic-specific Discussion Papers (also known as "Issue Papers") to serve as a common starting point for discussion on the Methodological Framework. The Papers were circulated January-April 2013 to Carbon Fund Participants and to over 100 experts who participated in REDD+ Design Forums which channeled input into the Methodological Framework. For each topic, the corresponding Issue Paper first presents background research and major approaches, and then suggests initial thinking on how to translate that topic into the context of the Methodological Framework of the Carbon Fund.

Because each paper presents a wide range of options, developed at the very beginning of the MF development process, the original drafts do not capture the discussions during Summer 2013 or reflect the final drafts of the MF. For this reason, the FMT has added an introductory chapter to each issue paper during August 2013 entitled "FMT Update." This aims to identify further approaches and considerations that emerged since the original paper, though it is not a summary of formal deliberations. Section II of each paper denotes the original Issue Paper. These Issue Papers reflect important context and options for the Carbon Fund of the FCPF and also contain useful information and considerations for policymakers and others designing REDD+ frameworks.

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I. FMT Update (September 2013)

Discussion about each Issue Paper and the MF as a whole led to new options, not previously proposed by the paper. These are added by the FMT, below.

1. Other topics considered in discussions on the Methodological Framework

Focus only on the 5 REDD+ activities listed under the UNFCCC. This option would exclude interventions that enhance carbon stock but fail to reach the definition of "forest" by the end of the program. This option underscores the Carbon Fund's mission to test the variety of REDD+ interventions, and emphasizes its identity as a pay-for-performance REDD+ fund that is focused on forests.

Compulsory measurement of degradation if it is a significant source of emissions and data is available. Measurement of degradation could be required if significant and if sufficient data is available, as a means of enhancing the environmental integrity of the ER Program and overall Carbon Fund portfolio.

Public availability of data and calculations: This option allows greater transparency of the ER+ Program and facilitates independent review.

Definition of an Accounting Area and linking with MRV and Reference Levels Issue Papers. The concept identified in this paper of accounting and measuring reductions against a larger area than the program intervention area can be defined formally as an "Accounting Area." The concept of the Accounting Area is broader than simply scope, encompassing measurement of carbon pools, definition of reference level, and MRV.

II. Original Issue Paper (Drafted January 2013)

1. Key Questions:

1. How should scale be addressed in terms of ER program implementation, carbon accounting and crediting? (E.g., national or subnational, and their relationship.)
2. Should there be requirements or guidance provided by the Carbon Fund about what activities or categories of emissions and removals from the forest sector a country should account for in its Emission Reductions Program?
3. Should there be a hierarchy of accounting?
4. Should there guidance on specific carbon pools a country must account for?

2. Introduction

There are a number of core decisions the Carbon Fund (CF) needs to make with regards to the scale and scope of the ER programs it will support. These decisions will impact the design of a number of other elements of the Methodological Framework (e.g. related to reference levels, leakage, legal issues, safeguards), and therefore should be considered early on.

Nearly all verified emission reductions have to date been generated at the project scale. However UNFCCC discussions on REDD+ have focused on subnational and national approaches, without clarifying what constitutes "subnational" (e.g., whether it means jurisdictional, programmatic[1], or if large-scale projects might still be eligible). Since the CF anticipates harmonizing with emerging UN frameworks, it needs to clarify at what level ER program implementation, carbon accounting and crediting may take place-- and what, if any, potential role projects might play. Specifically, the CF fund needs to decide the scale at which: (1) ER program **implementation** may be undertaken; (2) emissions **accounting and reporting** must occur; and (3) **crediting** (i.e., direct compensation) by the CF may take place.

Currently the Carbon Fund does not have requirements regarding which **activities or categories** of forest-related emissions a country should account for in its ER program. The UNFCCC has identified five activities that are 'eligible' for REDD+, but is silent on others—e.g., non-forested peatlands, harvested wood products, etc. In addition, the CF might want to decide at what point inclusion of degradation or management of leakage from deforestation to degradation should be required; or be silent on this.

A related question is whether or not rules should be set around accounting for certain emissions before others, i.e., creation of a **hierarchy** of required accounting. For example, should a country be required to account for emissions from deforestation and degradation *before* being allowed to credit removals through enhancement of forest carbon stocks? Or, should countries identify and account for their most significant emissions before being allowed to account for less

[1] Programmatic approaches may include a variety of policy and/or program interventions to reduce emissions (and/or enhance removals) that may not be constrained to a specific project (or jurisdictional) boundary, e.g. the government could increase illegal logging enforcement in general and provide incentives for farmers to maintain/enhance forest stocks.

significant emission sources? Or should the CF be silent on this and not provide guidance on the hierarchy issue?

Finally, the CF may also want to provide guidance around **carbon pools** that must be accounted for, and which pools will remain voluntary; or how such pools might be phased in over time.

UNFCCC and Carbon Fund relevant guidance

UNFCCC:
At COP-16 in Cancun, countries agreed that *subnational* forest reference (emission) levels, as well as subnational monitoring and reporting, could be developed as interim measures prior to development of national systems[2]. This was confirmed at COP-17, under a decision related to "Modalities for forest reference emission levels and forest reference levels", which acknowledged that subnational forest reference (emission) levels may be elaborated as an interim measure that 'may cover less than its entire national territory of forest area'[3]. As mentioned, the term "subnational" has been used in COP decisions, but not yet clearly defined.

At COP-16 (Cancun), countries also agreed to define REDD+ as including the following five forest-related activities:

(1) Reducing emissions from deforestation;
(2) Reducing emissions from forest degradation;
(3) Conservation of forest carbon stocks;
(4) Sustainable management of forests;
(5) Enhancement of forest carbon stocks.

Decisions under the UNFCCC do not yet answer any of the key questions directly. However at COP-17 (Durban), in "Modalities for forest reference (emission) levels"[4], countries agreed that:

> "*…a step-wise approach to national forest reference (emission) level development may be useful, enabling Parties to improve the forest reference (emission) level by incorporating better data, improved methodologies and, where appropriate, <u>additional pools</u>…*"

The Durban LCA Decision also included a focus on "enhanced" GHG inventories[5] and reporting on emissions and mitigation actions by developing countries through Biennial Update Reports, in which a country would include its forest-sector emissions and mitigation efforts. Developing countries are requested to provide "best available information" and updates of national inventory sections on emissions by sources and removals by sinks using the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories*, *2000 Good Practice Guidance for Land Use, Land-Use Change and Forestry,* and *2003 Good Practice Guidance for Land Use, Land-use Change and Forestry*.

[2] Decision 1/CP.16
[3] Decision 12/CP.17
[4] Decision 12/CP.17
[5] Annex II, UNFCCC biennial update reporting guidelines for Parties not included in Annex I to the Convention, Decision – CP/17

Carbon Fund:
The Carbon Fund has agreed[6] that ER programs should "be undertaken at a significant scale, e.g., at the level of an administrative jurisdiction within a country or at the national level" and that subnational approaches should "be integrated in a national institutional framework that will manage and coordinate sub-national programs". The CF talks about compensating REDD Country Participants ("Payments to be made under ERPAs will be for environmental services produced by the REDD Country Participant"), but is silent on whether other entities (e.g. nested projects) might also be directly compensated.

The Carbon Fund has also agreed to follow the principles of "transparency, consistency, completeness, and accuracy". With regard to "completeness", the following rationale is given:

> *"Completeness helps assure that ER Programs consider all the relevant information. For carbon accounting, this includes carbon pools and categories of activities producing emissions or removals of carbon for reporting on the implementation of REDD+ activities."*

3. Background

While some guidance has been provided by the UNFCCC and CF, a number of key questions remain:

- Whether additional land use, land-use change and forestry activities may be added to the list of eligible activities. In particular, several countries are interested in including non-forested peatlands or harvested wood products as part of their REDD+ strategy; others are considering other land use types, such as agriculture and/or coastal ecosystems (e.g. mangroves)?
- Whether a country could account for only a single activity (e.g. deforestation or reforestation), but not others?
- Whether a country could consider a land-based accounting approach (as is done for GHG inventories under the UNFCCC), or must use an activity-based approach (as is used for LULUCF activities in Kyoto Protocol accounting)?[7]

The following chart illustrates how the various eligible activities map into IPCC guidelines, Kyoto Protocol Activities, and other types of project activities used by voluntary standards.

[6] FCPF Carbon Fund Issues Note (February 9, 2011 - revised)
[7] Activity-based accounting is the traditional approach in mitigation projects. Activity accounting focuses on the activity being implemented and determines the baseline and monitors emissions and sequestration directly associated with the activity. For example, reduced impact logging (forest management) would look at emissions and removals associated with the felling and extraction of timber, using such extraction or "activity data". Land-based accounting involves the establishment of inventory plots across the area in question, and regularly monitors and creates plot data to capture stocks and changes in stocks. In the latter case, emission reductions associated with reduced impact logging would, in theory, be captured alongside all other changes in stocks in the forests. (Adapted from Verified Carbon Standard Association, *Jurisdictional and Nested REDD Initiative: Summary of Technical Recommendations – Version 2.0*, February 2012, Annex, available at http://v-c-s.org/JNRI)

IPCC categories	UNFCCC identified REDD+ Activities	Kyoto Protocol accounting (KP3.3 and 3.4)	Examples of voluntary market activities
Forests converted to other lands	Reducing emissions from deforestation	Deforestation	Avoided planned deforestation Avoided unplanned deforestation
Forests remaining as forests	Reducing emissions from degradation Conservation Sustainable Management of Forests Enhancement of forest carbon stock (through increases in the carbon density of existing forests)	Forest management	Avoided unplanned degradation Improved forest management Reduced impact logging Logged to protected forest Extended rotation age Low productive to high productive forest
Other lands converted to forests	Enhancement of forest carbon stock	Afforestation, Reforestation	Afforestation, reforestation

4. Approaches of Major Initiatives

Currently most major REDD+ initiatives other than the large-scale Norwegian initiatives with Guyana, Vietnam, etc. (e.g., CDM, voluntary markets) are *project-based* and therefore cover a range of project-based activities, such as reforestation, avoided unplanned deforestation, improved forest management, etc. Rarely are activities combined, except in the case of peatland rewetting (which could be combined with, for example, afforestation). Therefore, most major initiatives use activity-based accounting and have eligibility requirements related to activities and pools, but not hierarchies or other requirements that might be considerations for large-scale (e.g. national or jurisdictional) programs. However, for REDD+, with potentially five or more activity types, *a combination of activities is inevitable*, as shown in the three early country ER-PIN examples below. A combination of activities is also likely to reflect the post-Durban focus of UNFCCC parties on better GHG reporting and more comprehensive mitigation actions, including the forest sector, by developing parties.

Below is a chart of eligible activities under several initiatives, and notation on requirements for pools.

Standard or Initiative	Scale	Hierarchy presented	REDD or Avoided conversion	Forest Management	Enhancement of forest carbon stock	Requirement for pools
KP/CDM	Project	NO			✓	
VCS	Project	NO	✓	✓	✓	Above ground required, below ground optional, soil and HWPs depends
VCS-JNR	Jurisdiction (and nested projects)	YES[8]	✓	✓	✓	Up to jurisdiction, but must be "conservative"
California ARB (US forestry)	Project	No	✓	✓	✓	Above ground required, soil can be excluded if no significant change expected
California ARB (International REDD based on ROW recommendations)	Jurisdiction (and nested projects)	Yes[9]	✓	✓	✓	Must account for pools expected to change significantly with deforestation and/or degradation

It is also worth noting that FCPF countries who have put forward initial ideas for ER programs have taken a variety of approaches for what scope such a program might cover:

- **DRC:** Activities may include: reducing unplanned deforestation and degradation, reducing planned degradation, and increasing forest carbon stocks through reforestation and natural regeneration.[10]
- **Costa Rica**: Deforestation, reforestation, degradation and only included aboveground biomass (and possibly harvested wood products and/or soil carbon, to be determined).[11]
- **Vietnam**: Avoided deforestation and forest degradation; protection from illegal logging and SFM; enhancement of carbon stocks through regeneration, tree-planting, and long-cycle big timber plantations. Land-based accounting appears to be used through national carbon inventory and national forest inventory.[12]

5. Options for the Carbon Fund and Advantages and Disadvantages

1. ***How should scale be addressed in terms of ER program implementation, carbon accounting and crediting?***

[8] VCS JNR requires accounting of deforestation emissions at a minimum, regardless of other activities that might be credited.
[9] California REDD Offset Workgroup (ROW) recommendations are that host states be required to account for both deforestation and degradation emissions from program outset.
[10] www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/June2012/DRC_FCPF_ER_Program_idea_Note_Colombia24062012.pdf
[11] www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/June2012/PresentationPINCostaRica_Update_24jun2012.pdf
[12] http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/June2012/Initial%20idea%20for%20Vietnam%20ER%20Program_0.pdf

***a) Should ER program implementation be undertaken only at* the national or subnational jurisdictional (e.g. state, province or department) scale?** Or could other programmatic, land tenure or even ecological scales (not aligning with an administrative unit) be acceptable? Must all lands within the jurisdiction or other scale be included? This decision on scale of implementation might affect the reference level and MRV design requirements, institutional complexity, the range of interventions available, how some categories of more challenging land tenures or types are addressed, and the potential volumes of reductions generated.

b) At which scale should accounting and reporting of emissions be required?
The CF could decide that atmospheric integrity of the ER programs is maintained by requiring the accounting (including reference level establishment, monitoring and reporting) of forest emissions be undertaken at the broadest possible scale (ideally wider than the scale of implementation and crediting), and ensure that credits are not issued to the ER program beyond the net reductions achieved at that broader scale (including potential leakage and reversals). Alternately, the CF could require that ER programs account for emissions at the scale of crediting, whether national, subnational jurisdiction or possibly large-scale project. Finally, it is noted that compatibility with emerging UNFCCC frameworks may be affected by the accounting scale chosen by the CF.

c) At which level should CF compensation or crediting (i.e., direct compensation) take place?
In addition to compensating REDD Country Participants, the CF could allow ER programs to elect whether government-approved projects nesting within the ER program also might be directly credited by the CF. Alternatively, the CF could decide only to compensate REDD Country Participants, with further benefit flows or other compensation within the country left up to the governments.

Box: Nested Project Accounting and Crediting

The term "nested projects" refers to REDD+ projects whose site-specific emissions reductions (or removals) are accounted for, but where credit issuance is dependent upon the overall performance of the jurisdiction in which they are located. This jurisdictional scale reconciliation is important for maintaining atmospheric integrity, i.e., to ensure that the number of credits issued to all actors (jurisdiction and projects) does not exceed the total number of emissions reductions that are generated across the jurisdiction.

Nested project accounting requires the establishment of consistent and harmonized reference levels (or baselines) and MRV (monitoring, reporting and verification) between the project and jurisdictional scales. To provide transparency and encourage outside investment, the ER program might define how credits will be allocated between projects and the jurisdiction (i.e., government) based on emissions reduction performance, including how leakage and reversal mitigation will be managed (e.g., potentially through shared buffers).

The chart below offers several pros and cons of the various options related to scale:

Approach	Advantages	Disadvantages
IMPLEMENTATION SCALE		
Jurisdictional (national or subnational)	• Can tap government policies and programs to change deforestation/degradation trajectory over long term • Potential to generate significant volumes of reductions • Can readily tap host country legal and enforcement mechanisms	• May involve complex interplay of range of approaches, actors and agencies • May not be neat overlap between ER program activities and administrative jurisdiction boundaries
Program	• Provides flexibility for ER program to define appropriate scale and nature of interventions (e.g., mosaic of activities across jurisdictions)	• ER programs could look very different across countries
Large-scale Project	• May be simpler to implement	• Possibly smaller emission reduction potential • Limits range of potential interventions • May not leverage government policies and programs • May not incentivize building of government institutions/readiness or broad land-management reform
ACCOUNTING AND REPORTING SCALE		
National jurisdiction	• Best harmonizes with UNFCCC accounting frameworks • Maintains atmospheric integrity at broadest scale • Reduces risk of potential incompatibility with national accounting frameworks that have yet to be developed	• May not be appropriate/workable for some ER programs (e.g. lack of quality RL or monitoring data, or national government capacity)
Subnational jurisdiction or large ecoregion	• Somewhat harmonizes with UNFCCC • In certain countries, may be easier to implement than at national scale • Provides flexibility to accommodate range of ER programs • Scale of reductions may be best matched with CF demand	• Risk of conflict with national frameworks if not appropriately coordinated now and in future • At some point, will require reconciliation with national accounting frameworks for UNFCCC compatibility
Stand-alone Project	• Established REDD+ accounting experience and methodologies • Most likely to attract private sector finance	• May not harmonize with UNFCCC • Not innovative compared to voluntary carbon market • Additional requirements may be needed to maintain atmospheric integrity
CREDITING LEVEL		
Jurisdiction (i.e. REDD Country Participant)	• Matches CF contracting level since ER programs are submitted/managed by governments	• May not motivate NGOs and private parties to develop projects if unclear crediting pathway (e.g., government must allocate benefits to projects)

only		
Jurisdiction + nested projects (should ER program request this)	• Provides flexibility to ER programs to integrate projects as appropriate • Direct crediting to project proponents likely to incentivize new project development • Diversifies number of actors undertaking (and being rewarded for) emission reduction activities, reducing risk of complete program failure • Could support direct crediting of local communities and indigenous peoples with land/carbon rights as a transparent means of benefit sharing	• More complex for CF to manage transactions with multiple parties (i.e., government and project proponents) • Spreads limited funding to range of actors, which may decrease compensation potential for governments
Stand-alone projects	• May involve relatively straightforward transactions	• Does not reward of incentivize development of government REDD+ policies and programs • Does not harmonize with UNFCCC • Development of stand-alone projects may slow down establishment of jurisdictional REDD+ frameworks and create accounting incompatibilities

2. ***Should there be requirements or guidance provided by the Carbon Fund about what activities or categories of emissions and removals from the forest-sector a country should account for in its Emission Reductions Program?***

Activities and Categories: The Carbon Fund could choose to: allow countries complete flexibility on what categories or activities to account for; provide eligible ones; or require certain categories or activities or combinations of them.

The Carbon Fund could use, for example:

a. IPCC categories;
b. Kyoto Protocol activities;
c. More specific activities as currently used in the voluntary markets;
d. Some combination of the above.

Another key consideration is whether the Carbon Fund should allow ER programs to include additional land use categories or activities currently not included explicitly in the UNFCCC decisions on REDD+, but may be included in a future decision—for example, non-forested peat lands, or harvested wood products.

Land vs. Activity-based Accounting: The Carbon Fund could allow countries to take either an activity-based accounting approach (as used by the Kyoto Protocol) or a land-based approach (i.e., how all Parties report to the UNFCCC using IPCC Guidance, and consistent with enhanced Biennial Update reporting for developing countries).

a. Activity-based accounting may be less resource intensive and allow for broader participation.

b. For land-based accounting, the Carbon Fund could allow countries to take a simplified approach to start that uses a conservative crediting baseline and stratifies land into at least two categories, forest and non-forest (depending on the mitigation activities involved).

	Option	Advantages	Disadvantages
Land or Activity-based accounting	Activity-based	Less resource intensive; more aligned with how some jurisdictions are currently implementing (and accounting for) REDD+	May miss key emissions (including leakage) or removals if ER program represents large area
	Land-based	Captures key emissions and removals, better leakage management, streamlines pathway to comprehensive accounting; consistent with GHG inventory and Biennial Update reporting to UNFCCC	Can be more expensive, requires more capacity to implement, possibly lower precision. Lack of defined methodologies for handling such accounting
Eligible activities or categories	IPCC categories	Most consistent with IPCC guidelines for reporting	Can be more expensive, requires more capacity to implement
	Kyoto Protocol activities	Precedent, as used by KP Parties for accounting	Countries keep two sets of books (similar to KP Parties)
	Voluntary market activities	Methodologies may exist from voluntary market	May not align with UNFCCC
	Allowing additional LULUCF categories, activities	Allows countries to include significant emissions or adaptation priorities	Not yet included in UNFCCC REDD+ definition

3. Should there be a hierarchy of accounting?

The Carbon Fund could simply be silent on the hierarchy issue, and let countries decide which activities they want to address. However, following the lead of some other programs, the CF may want to consider creating either mandatory activities, or categories or hierarchies of categories or activities, such as:

a. Requiring the ER Program to account for deforestation, and then any other additional REDD+ activity (similar to VCS JNR requirements)

b. Requiring the ER Program to account for degradation[13], as a major source of emissions and potential mitigation option, whose inclusion would signal a CF commitment to higher environmental integrity;

c. Requiring countries to perform the IPCC's Key Category analysis, and requiring accounting of the activities/categories identified as significant sources of emissions.

d. Using the Kyoto Protocol approach (or some form thereof), which originally required countries to account for Afforestation, Reforestation, and Deforestation, but made Forest Management (and other land uses) optional. In Durban, forest management was added as a mandatory activity.

[13] Another option instead of requiring the full accounting of degradation where not particularly relevant to a given ER program would be to require, as the VCS JNR does, at a minimum the accounting of potential leakage from deforestation to degradation.

In all cases, the Carbon Fund may want to consider how to provide incentives or provide a smooth pathway for countries/subnational regions to broaden the scope (i.e., add categories/activities and pools) over time, in a step-wise manner.

Option	Advantages	Disadvantages
No hierarchy	Simple, maximizes country flexibility	Allows cherry picking of activities by country, and could ignore degradation in particular
Require deforestation	Will capture key source of emissions for most developing countries before allowing crediting from sinks; enhances robustness and perceived credibility of emission reductions/removals credited	For a few countries, it may not be practical, particularly if the main carbon stock change is from reforestation
Use key category analysis	IPCC guidance available, would ensure accounting of all significant emissions and removals	Less flexibility for countries to determine which categories/activities it wants to account for
Use Kyoto Protocol approach	Precedent and IPCC guidelines available	May not capture all key emission sources

4. ***Should there guidance on specific carbon pools a country must account for?***

The UNFCCC decision on REDD+ mentions a step-wise approach for incorporating additional carbon pools. The Carbon Fund could consider the following options:

a. Allow countries to determine which pools they want to include;

b. Require some carbon pools (such as above-ground biomass for all categories/activities, but only soil carbon for peatlands);

c. Require pools which represent "significant" emission to be accounted (would require definition of "significant");

d. Require a conservative choice of carbon pools (e.g., pools that are at risk of decreasing, relative to the jurisdictional baseline, due to program or project activities shall not be excluded, unless deemed "insignificant" by some agreed measure).

Option	Advantages	Disadvantages
Country determined	Provides flexibility	Significant emissions or removals may not be included in accounting
Require certain pools	Improves integrity over complete flexibility	Less flexibility, may prevent participation
Conservative requirement	Higher environmental integrity	Same as above, may prevent participation as some countries may not be ready to include necessary pools

6. Potential Candidate Approach for the Carbon Fund

1. ***How should scale be addressed in terms of ER program implementation, carbon accounting and crediting***

Recommendation 1a: Allow ER programs to implement on a jurisdictional (national or subnational) or programmatic basis. Stand-alone project implementation does not leverage (or incentivize) the range of government policies and programs needed to tackle deforestation at scale, and may not generate the volumes of emission reductions potentially needed by the CF and other large-scale buyers. For these reasons, the CF should not support ER programs based purely on stand-alone project activities. However, the CF should allow ER programs to implement on an administrative jurisdictional basis or programmatic basis, as appropriate.

Recommendation 1b: Require ER programs to report and account for forest emissions at the administrative/jurisdictional (e.g. national, state, province, department, district) scale, or other national-government designated unit (e.g. eco-region) scale. By requiring the reporting and accounting of forest emissions at the largest jurisdictional (or government designated unit) scale relevant to the ER program, and ensuring that credits are not issued beyond the net reductions achieved at that broader scale, the CF can enhance atmospheric integrity and the credibility of the emission reductions claimed.

Recommendation 1c: The Carbon Fund will compensate the authorized entity with whom it signs an ERPA, for emission reductions achieved under the ER Program**.** Certain REDD Country Participants may seek to leverage REDD+ project activities within the accounting area as an integral part of their ER program. In such cases, REDD countries may elect to compensate "nested" projects as part of their benefit-sharing arrangements (covered in a separate Issue Paper) or potentially seek to establish some other direct crediting pathway for such projects.

2. ***Should there be requirements or guidance provided by the Carbon Fund about what* activities or categories of emissions and removals *from the forest-sector a country should account for in its Emission Reduction Program?***

Recommendation: Allow flexibility in the choice of categories and activities of emissions and removals from the forest-sector a country should account for in its Emission Reduction Program, as long as significant emissions sources are covered. Allow inclusion of additional LULUCF activities (e.g. on peatlands), if a country chooses. Given the piloting nature of the Carbon Fund, it is prudent to allow experimentation in early stages, including to allow the use of both land-based or activity-based accounting, and also allowing ER programs to include additional land-use categories/activities not explicitly named in UNFCCC decisions (e.g., peatlands, croplands, wood products, etc.).

(Countries may want to note the trend toward more completeness in UNFCCC requirements, as illustrated in enhanced GHG inventory and Biennial Update reporting, and to consider approaches that are likely to be compatible with future UNFCCC requirements and decisions.)

3. ***Should there be a <u>hierarchy of accounting</u>?***

Recommendation: Require inclusion of significant sources of emissions. ER programs should justify the exclusion of any sources by providing information that they are de minimus, i.e. where GHG emissions amount to less than 10% of total forest-related emissions in the

accounting area, or that they can be conservatively excluded. Such an approach ensures environmental integrity of the ER Program, while not being overly prescriptive in the categories/activities targeted and accounting for by the ER Program.

4. ***Should there be guidance on specific carbon pools a country must account for?***

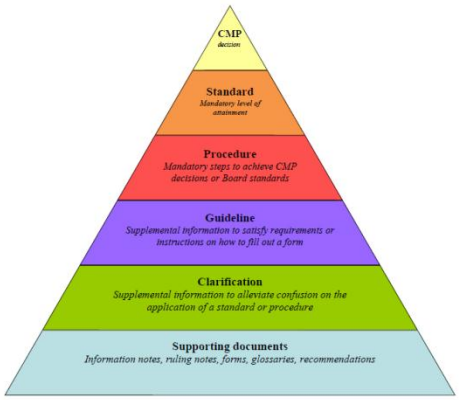
Recommendation : Allow flexibility on the choice of carbon pools for ER programs, where conservative. Similar to the requirement above, the ER program should justify where is pools are exempted from the accounting framework. For most ER programs, flexibility will be allowed. For example, excluding soil carbon is conservative for avoided deforestation and avoided degradation, since such activities would be expected to increase (not decrease) the carbon in this pool compared to the baseline/RL. However in some cases, such as afforestation/reforestation activities involving heavy ground disturbance from land clearing and planting, soil carbon emissions may be significant and need to be accounted for. By requiring the accounting of such pools in these cases and only compensating for net carbon benefits, the Carbon Fund can ensure environmental integrity and incentivize good ERP design that minimizes the potential for such emissions.

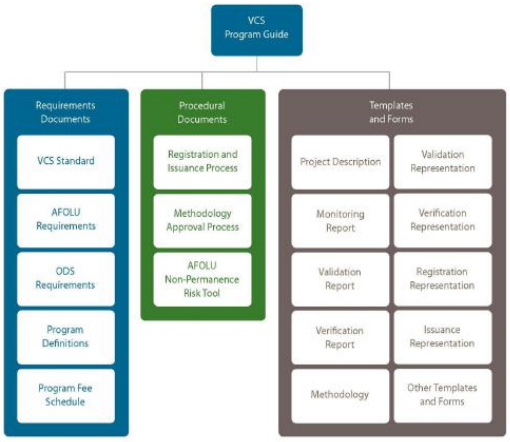
7. Next Steps: Topics on Which Further Analysis or Discussion is Needed

There is a possible need to define "large-scale" if an ER program is not part of an administrative unit, and also decide whether, and how, a country might need to monitor for degradation if they are being credited for deforestation.

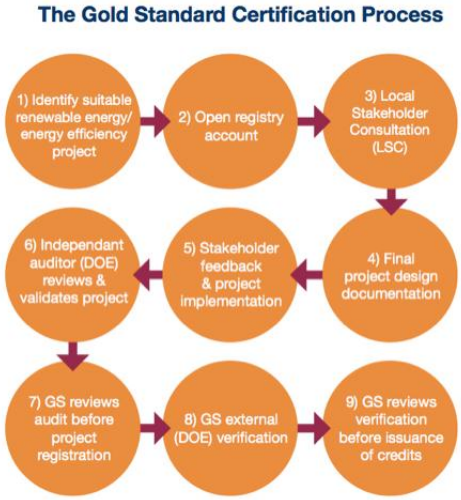
Annex I: Examples of Approaches of Major Initiatives

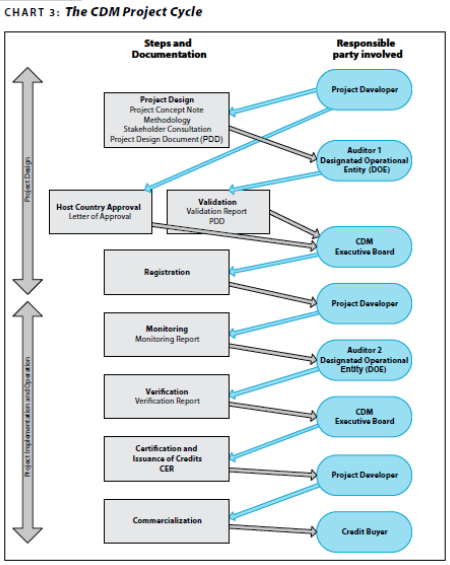
Below are examples of two organizations, CDM and VCS, and how they organize various rules, requirements, documentation, etc.





And examples of a "certification process"[14] or "project cycle"[15]:





[14] http://www.cdmgoldstandard.org/project-certification/what-is-the-process
[15] http://sei-us.org/Publications_PDF/SEI-WWF-ComparisonCarbonOffset-08.pdf