

FCPF Carbon Fund Methodological Framework Discussion Paper #1: General Approach

WORKING DRAFT SOLELY FOR INPUT INTO AND DISCUSSION BY CARBON FUND WORKING GROUP
January 13, 2013 by TAP Experts¹, managed and edited by Facility Management Team

Table of Contents

- I. Key Questions for the Carbon Fund's Eventual Guidance on This Topic
- II. Introduction
- III. Background Helpful to Set the Stage for this Discussion
- IV. UNFCCC and/or Carbon Fund Relevant Guidance on This Topic
- V. Options for the Carbon Fund Guidance to Address This Topic, including Advantages and Disadvantages
- VI. Potential Candidate Approaches for the Carbon Fund Guidance, and Rationale Annex

Section 1: General Approach of the Eventual Methodological Framework

- I. **Key Questions for the Carbon Fund's Eventual Guidance on This Topic: What level of specificity in rule setting does the Carbon Fund want to provide?**
 - 1. **What level of specificity in rule setting does the Carbon Fund want to provide?**
 - 2. **Is the CF comfortable with using a mix of several approaches to address different issues in the Methodological Framework (MF) (i.e., just criteria and indicators for say benefit sharing, but very specific methods for say MRV), or must the CF reach consensus on a single, consistent approach for the whole MF?**
 - 3. **Does the CF want to allow the use of existing standards to satisfy some or all of its methodological framework requirements, and if so what is the best way to sanction such use?**
 - 4. **If an ERPA was signed, and subsequently the Carbon Fund changed its standard or issued new guidance, would a country need to meet the new standard and/or change its methods?**
 - 5. **Should the CF simply produce emission reductions (ERs), or could it issue emission reduction credits? If so, would it allow issuance by a third party, or issue credits itself (at least initially)?**

II. Introduction

A key question for the Carbon Fund (CF) is How does it wants to structure the guidance provided in its Methodological Framework (MF) to guide REDD+ countries submitting Emission Reductions (ER) Programs? The CF will need to decide at what level of specificity it wants to set rules—for example,

¹ Support was provided by Forest Carbon, Markets and Communities (FCMC), a US Agency for International Development (USAID) funded program. The views contained in this document do not reflect the views of USAID or the US Government.

does the CF want to only provide a high-level methodological framework to ensure a minimum quality (e.g., around environmental integrity), or to set boundaries around what types of ER programs are eligible? Does it want to provide “indicators” (either mandatory or voluntary) to assess whether ER Programs are meeting the rules? Does the CF want to create and/or approve methodologies (as most existing project crediting initiatives require)? And/or provide any additional guidance? In the other extreme, the CF could decide it does not want to create a stringent set of rules, and instead take a “propose and review” approach (where an ER Program proposes how it would meet CF requirements, which the CF would then review to assess its adequacy) that allows maximum flexibility and assesses each ER program as it is proposed.

Alternately, the CF could decide that it might prefer a mix of approaches that might provide more detailed rules for some issues, but provide less guidance and allow flexibility in others. In other words, assess each issue in the MF and decide the level of specificity desired for each, not forcing consistency across the MF (i.e., the sense of the Working Group’s Brazzaville meeting). In addition, once an approach (or a mix of approaches) is decided, does the CF want to approve the use of existing standards (e.g., create a “positive list” of existing standards or guidance acceptable to the CF, such as a particular CDM methodology or approach under VCS Jurisdictional Nested REDD), or allow ER Programs to propose the use of specific standards/methodologies if they meet the CF’s agreed requirements?

Development of the Carbon Fund MF may remain a work in progress, as the FCPF gains experience and learns lessons from efforts by early movers. The CF may want to decide what the obligations of a ER Program might have if guidance changes after an ERPA is signed or mid-stream during implementation of an ER program .

Finally, the CF should decide whether it wants solely to produce emission reductions, or to allow credits to be issued for the emission reductions being compensated? If so, which entity or entities should be allowed to issue such credits -- the CF itself, the host country of the ER Programs, and/or existing 3rd party programs?

III. Background Helpful to Set the Stage for this Discussion

Various initiatives and organizations that create “verified” or “certified” emission reductions (ERs) use different terminology around what constitutes a standard, principle, criteria and indicator, which can make comparisons difficult. Furthermore, some “standards” related to REDD+ are not focused on emission reductions, but (as in the case of the REDD+ Social & Environmental Standards) seek to ensure other types of performance from REDD+ programs, unrelated to measuring the greenhouse gas emission benefits.

What is a standard?

Standards are generally a set of rules that are established in order for a given set of activities to attain a specified level of quality or performance. In the context of carbon markets, these often refer to a set of rules that regulate the issuance of carbon credits. According to the CDM, “Standards are designed to achieve a uniform approach to compliance... A standard describes mandatory levels of performance (policy standard) or provides mandatory specifications (methodological standard), and as such, is used as a reference point against which compliance is evaluated.”²

² http://cdm.unfccc.int/Reference/Notes/gov/info_note02.pdf

Some standards do not only function as a “set of rules”. For example, the REDD+ Social and Environmental Standards are also designed to³:

- Provide good practice guidance for the design, implementation or evaluation of a REDD+ program; or
- Provide a framework for countries to report on performance of their REDD+ programs through a multi-stakeholder assessment process.

Building blocks for standards may include:

- Principles (e.g., consistency, accuracy, transparency, etc.)
- Criteria and/or indicators (that define conditions to achieve a level of performance or compliance)
- Eligibility requirements (e.g., forest definition, ownership/land title, start date, project term, crediting period, community impacts, etc.)
- Project/program requirements (scope, scale, baseline, additionality, monitoring, etc.)
- Methodology development and approval requirements (rules for how methodologies may be constructed and approved)
- Validation and verification requirements (for assessment to determine if project meets the standard)
- Credit issuance (see discussion below).

What are different types of standards?

- **Carbon accounting standards** ensure that offsets are real and additional, and typically include rules for defining acceptable project activities, proving additionality, baseline formulation, measurement, leakage accounting, monitoring and reporting. Such standards might also include requirements (and program elements) around “permanence”, such as creating buffer reserves for managing potential reversals. Accounting standards typically can be applied upfront to validate the project design (i.e., demonstrate that the project meets the standard’s general requirements) and periodically thereafter to verify that the claimed emission reductions during a given crediting period were actually generated.
- **Contractual or legal standards** can clearly identify the “owner” or rights holder of emission reductions and define transaction terms. The basic legal elements are often incorporated into the carbon accounting standard, e.g. requiring that the project proponent prove that it holds the rights to the carbon being transacted.
- **Social & environmental standards** aim to define social and environmental performance and establish related safeguards. Similar to carbon accounting standards, S&E standards may support validation of the project design as well as verification of the ex-post benefits generated.

Note: The FCPF PC WG elements cluster the first two types above into carbon accounting elements, and the latter two into programmatic elements.

A few examples of existing standards relevant to REDD+ include:

- The Kyoto Protocol’s **Clean Development Mechanism** does not have a single document that forms a standard but instead uses a series of COP-MOP and Executive Board (the appointed regulators for the CDM) decisions to achieve uniform outcomes.

³ <http://www.redd-standards.org/role>

- The **Verified Carbon Standard** has a broad standard applicable for all project types. In addition, its AFOLU (Agriculture, Forests and Other Land Use) Requirements cover six land use categories, and a new set of requirements cover Jurisdictional and Nested REDD+ for “integrated REDD+ projects, policies and programs across jurisdictions”, whether national or subnational.
- The **REDD+ Social & Environmental Standards** “consist of principles, criteria, and indicators that define the necessary conditions to achieve high social and environmental performance”⁴.

What is a protocol?

Unlike standards, which set broad benchmarks and allow project developers to create methodologies that meet the standard for a specific application, protocols define upfront how emission reductions must be accounted for. Protocols tend to be very prescriptive and often use look up tables or other standardized means to establish default values for different accounting parameters.

- The **Climate Action Reserve (CAR)** has developed a set of “protocols”, which are functionally similar to the combination of a standard and methodologies as defined by other organizations. CAR has a single protocol covering the following US forest project types – reforestation, improved forest management and avoided conversion.

What is a methodology?

Methodologies are a system of procedures for accomplishing a predetermined result, like accounting for emissions. Forest carbon methodologies typically cover a defined set of activities (e.g., avoiding unplanned deforestation) and provide detailed requirements and guidance related to them.

According to the CDM, “A methodology is a standard procedure to calculate emission reductions of a typical CDM project, and also to monitor the emissions of that project.”⁵

The VCS defines methodologies as setting out “detailed procedures and equations for quantifying the real greenhouse gas benefits of a project. They tell project proponents things like how to determine the project boundary, how to assess additionality, how to conservatively determine the most plausible baseline scenario, how to quantify the GHG emissions that would have occurred and how to quantify the GHG emissions that were reduced or removed as a result of the project.”⁶

Building blocks for methodologies may include elements such as:

- Procedures to estimate emissions or uncertainty levels
- Procedures to assess historic data, or business-as-usual projections, to create baselines
- Procedures to measure leakage from a defined project area
- Procedures to monitor emission reductions and/or removals.

What are methodological tools?

The VCS describes modules and tools as “discrete components that sometimes complement methodologies by setting out procedures for specific tasks, such as assessing additionality or setting performance or technology benchmarks.”

⁴ <http://www.redd-standards.org/the-standards>

⁵ <http://cdm.unfccc.int/faq/index.html>

⁶ <http://v-c-s.org/methodologies/what-methodology>

Examples of methodological tools include:

- VCS has “tools” to assess non-permanence, uncertainty (for IFM projects), and additionality (in AFOLU or IFM projects); and “modules” which provide e.g., baseline carbon stock changes, emissions from a range of activities (planned and unplanned deforestation, forest degradation caused by fuel wood extraction, biomass burning, etc.), and methods for stratifying a project area, or calculating uncertainty.
- Similarly, the American Carbon Registry has tools for, e.g., determining REDD project baseline and additionality; and non-permanence risk analysis and buffer determination.

Principles, Criteria & Indicators

Standards may include the use of principles, criteria and/or indicators. E.g., the REDD+ SES standard offers useful definitions in this regard:

- **Principles** are the 'intent' level of a standard which elaborate on the objectives of the standard and define the scope. They are fundamental statements about the desired outcome and are not designed to be verified.
- **Criteria** are the “content” level of a standard which set out the conditions which need to be met in order to deliver a principle. It can be possible to verify criteria directly but they are usually further elaborated by indicators.
- **Indicators** are quantitative or qualitative parameters which can be achieved and verified in relation to a criterion to indicate, in practical terms, whether this criterion has been met.

In the case of the REDD+ SES Standard, principles and criteria are generic (i.e., the same across all countries). However, “there is a process for country-specific interpretation to develop a set of indicators that are tailored to the context of a particular country” and so the standard only includes a “framework for indicators intended to guide the country-specific interpretation process rather than provide specific indicators that must be used in each country”.⁷

⁷ <http://www.redd-standards.org/structure>

Levels of Specificity- Hypothetical Example

The following provides an example of how the issue of reference levels might be covered at increasing levels of specificity.

- **Principle:** Reference levels must be conservative and justified with empirical data
- **Criteria:** Reference levels must be based on historical data allowing for adjustments based on national circumstances
- **Indicator:** The reference level is established based on historical data. Supportive data is used to demonstrate that any proposed adjustments are credible and defensible?
- **Detailed methodological requirements** (example taken from VCS JNR):

Where no baseline (or reference level) has been established under the UNFCCC for the purposes of crediting or compensation in a market-based mechanism, the jurisdictional baseline shall be developed based on the historical reference period, and may be adjusted as noted below [*the VCS JNR contains ~3 pages of additional requirements around adjustments, incl. potential use of modeling*].

Jurisdictional proponents shall, at a minimum, develop two alternative jurisdictional baselines for the coming 10 years based on the following: (a) The historical annual average GHG emissions or removals over the period of 8 to 12 years ending within two years of the start of the current jurisdictional baseline period; and (b) The historical trend of GHG emissions or removals (which may be increasing or decreasing) based on changes over at least the 10 years ending within two years of the start of the current jurisdictional baseline period

What are Procedures?

The CDM cites that “a procedure contains a mandatory series of actions that must be undertaken to demonstrate in a consistent way that the Board, project participants, DOEs, etc. comply with the CDM modalities and the standards issued by the Board.

Procedures also may include:

- Registration and issuance of credits
- Methodology approval processes
- Non-permanence risk analysis and buffer determination
- Validation and/or verification processes
- Complaints and appeals procedures.

What are Guidelines, Guidance and Best Practice?

According to the CDM, guidelines contain “supplemental information such as acceptable methods for satisfying requirements identified in standards or procedures, or instructions on how to fill out forms. Guidelines describe processes and are designed to promote a uniform approach to compliance with the applicable standards or procedures”.⁸ For example, the IPCC’s “Good Practice Guidance for Land Use, Land-Use Change and Forestry” provides supplementary methods and assists countries in producing inventories for the land use sector.

- *Guidelines* are not mandatory requirements—unless clearly stated as rules or mandated by requirements.
- *Best practice* is defined as “commercial or professional procedures that are accepted or prescribed as being correct or most effective”.

⁸ <http://oxforddictionaries.com>

Credit issuance, registration and enforcement systems

There are several options for the formal and legal issuance of credits. Some entities (e.g., CDM, VCS) issue credits themselves, while others recognize credits issued by 3rd party programs. For example, the BioCarbon Fund helps to generate and finance CDM-issued afforestation/reforestation credits.

Registration and enforcement systems can ensure that carbon offsets are not double counted, have clear ownership and can be traded and/or retired. They must include a registry with publicly available information to uniquely identify offset projects and a system to transparently track ownership of offsets.⁹

IV. UNFCCC and/or Carbon Fund Relevant Guidance on This Topic

In June 2012, the Participants Committee adopted the “Recommendations of the Working Group on the Methodological Framework and Prince Approach for the Carbon Fund of the FCPF” as guiding principles. These ‘elements’ were intended to provide high-level guidance for further development of the methodological framework, and included principles related to carbon accounting, programmatic characteristics and pricing methodologies.

It suggested that the MF should address: (i) Carbon accounting; and (ii) Programmatic characteristics, including social, environmental and other non-carbon benefits. And that *“The methodological framework for the Carbon Fund is not expected to consist of detailed calculation methods or protocols. Rather the framework should provide the overarching guidance and act as a standard that is designed to achieve a uniform approach to carbon accounting and programmatic characteristics.”*

Additionally, the first meeting of the CF’s Working Group in Brazzaville, October 2012, provided an early view that the MF needs to be in full draft by June, 2013. The MF could be developed on an issue by issue basis, providing as much guidance as there is CF consensus on at that time; and, if necessary, adapting a mix of standards, and guidance on an issue-by-issue basis for draft MF Version 1.0 by June. Following public review and reflecting CF comments, working Version 1.0 could be presented to the CF in November, 2013. Potentially, as progress on methods and piloting by FCPF countries occurs, a Version 2.0 could be produced in a few years.

V. Options for the Carbon Fund Guidance to Address This Topic, including Advantages and Disadvantages

1. What level of specificity in rule setting does the Carbon Fund want to provide?

Approach	Advantages	Disadvantages
Establish high-level principles (i.e., the existing Elements, or enhancement of them)	<ul style="list-style-type: none"> Simple and easiest to develop, given that the Elements already address many issues. 	<ul style="list-style-type: none"> May not be viewed as sufficiently rigorous. May not provide sufficient guidance to countries or CF reviewers creating uncertainty about what will be acceptable.
Establish medium-level criteria & indicators	<ul style="list-style-type: none"> Relatively easy to develop. Provides reasonable level of detail to ensure quality is maintained. Does not hamper 	<ul style="list-style-type: none"> Might require additional guidance to countries on what is or is not acceptable, to ensure some measure of consistency across programs. May not provide sufficient guidance on complex issues like reference levels or MRV.

⁹ http://sei-us.org/Publications_PDF/SEI-WWF-ComparisonCarbonOffset-08.pdf

	<p>innovation or flexibility by being too prescriptive.</p> <ul style="list-style-type: none"> Methodological decision support or other tools could be provided as guidance. 	
Develop detailed methodological guidance, or protocols	<ul style="list-style-type: none"> Leaves no question about what is acceptable. Can address many more detailed issues or requirements than higher-level criteria and indicators approach. 	<ul style="list-style-type: none"> Very time consuming to develop. May be challenging to reach CF agreement on many details. May be viewed by some as the CF meddling in UN/SBSTA processes and overstepping its mandate. CF requirements could conflict with those of other donors/markets, which could create problems for countries trying to implement cohesive programs. Limits flexibility for countries and potential for bottom-up innovation. May be hard for ER programs to meet, and could discourage some new CF submissions. Limits ability of CF to adapt framework over time to serve evolving needs of CF and ER programs.

2. Does the CF want to allow for a mix of approaches to be used to address different issues, or use a single, consistent approach for the whole Methodological Framework?

	Advantages	Disadvantages
Use mix of approaches	<ul style="list-style-type: none"> Allows flexibility in designing framework, e.g. higher stringency could be possible in areas of particular interest to CF. Is pragmatic, can be developed faster. Allows flexibility if the UNFCCC has provided more detailed guidance on some area over others. Can be upgraded in stepwise approach over time as CF gains experience. 	<ul style="list-style-type: none"> Lack of consistency across topics could cause confusion.
One consistent approach	<ul style="list-style-type: none"> Creates elegant framework Treatment of all issues with standard level of stringency. 	<ul style="list-style-type: none"> Lack of flexibility, particularly if CF members require higher level of stringency for some issues over others. Possibly difficult for CF to reach agreement on one approach. Restricts country flexibility in ERPs.

3. Does the CF want to allow the use of existing standards to satisfy some/all of its methodological framework requirements, and if so what is the best way to sanction such use?

	Advantages	Disadvantages
Use of existing standards for meeting CF methodological framework (MF)	<ul style="list-style-type: none"> May streamline CF MF development, with ability to tap existing standards. Using standards that have been developed through robust processes 	<ul style="list-style-type: none"> Standards may not exist that meet all CF requirements – although such gaps could be addressed by layering on additional CF requirements.

<p>requirements</p>	<p>could enhance how CF MF is viewed by various stakeholders.</p> <ul style="list-style-type: none"> • Could tap standards program components (e.g. verification, reversal management and registration systems). • Facilitates ER programs using single standard to serve non-CF donor, non-market and market needs. 	<ul style="list-style-type: none"> • CF may want to ensure that high quality or the highest quality standards are used.
<p>...through establishing a “positive list” of acceptable standards</p>	<ul style="list-style-type: none"> • Provides clarity upfront – assuming list could be developed quickly. 	<ul style="list-style-type: none"> • Top-down approval approach may not be welcomed by some countries. • CF must develop stand-alone criteria for assessing standards. • Resources required to assess and respond to standard submissions in a timely manner. • Likely to encourage many submissions from standards that must be assessed regardless of likelihood of adoption by ER programs.
<p>...through allowing ER programs to submit proposed standards to be used on a program by program basis</p>	<ul style="list-style-type: none"> • More adaptive and responsive to ER program needs. • Can assess acceptability of standard in context of specific ER program. • Saves time by avoiding CF development of generic assessment criteria up front, before ER programs are sufficiently defined. • Allows precedent for what constitutes acceptable standards use to be established over time, informing subsequent proposal submissions. This could form the basis of a bottom-up “positive list”. 	<ul style="list-style-type: none"> • Might require additional guidance to be provided upfront, for countries to have sufficient certainty to decide how to develop their ER programs.

4. If an ERPA was signed, and subsequently the Carbon Fund changed its standard or issued new guidance, would a country need to meet the new standard or change its methods?

	Advantages	Disadvantages
<p>Require country to meet new standard or guidance</p>	<ul style="list-style-type: none"> • Would increase consistency across credits that are generated under the CF • Could offer enhanced approach that some countries would want to do • Is a stepwise approach 	<ul style="list-style-type: none"> • Potentially onerous or costly for REDD country to change program mid-stream
<p>Do not require change in ER program (but possibly request voluntary upgrading)</p>	<ul style="list-style-type: none"> • Provides predictability for ER program proponent • Voluntary upgrading, if cost effective and significant 	<ul style="list-style-type: none"> • Could result in early credits being generated of lower quality (if standard is raised)

to new standard)	advantages, enhances ER Programs and allows consistency across them.	
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5. Should the CF simply produce emission reductions (ERs), or could it issue emission reduction credits? If so, would it allow issuance by a third party, or issue credits itself ?

Credit issuer	Advantages	Disadvantages
Emission Reductions only (no credits issued)	<ul style="list-style-type: none"> • Simpler than CF having to address credit issuance • Credit issuance not a usual role for World Bank (trustee of CF) 	<ul style="list-style-type: none"> • Countries would generate ERs without having a path to their use in market or non-market programs
Credits issued	<ul style="list-style-type: none"> • Enhances transparency and perceived robustness of the system. • May reduce risk of double counting, assuming credits are properly registered and tracked. • Builds market liquidity and facilitates trading. • Could serve and be attractive to multiple markets or donors. 	<ul style="list-style-type: none"> • May increase transaction costs. • Some stakeholders may have problem with implicit market signal. • May not be appropriate role for World Bank to play
...by Carbon Fund	<ul style="list-style-type: none"> • CF could develop crediting system that serves its specific needs. 	<ul style="list-style-type: none"> • CF not set up to issue credits. • Can be burden for FMT versus using existing credit issuers; credits may not be accepted by other funders, markets. • Creates challenges for countries if they have to manage and track credits through multiple systems to serve a variety of markets.
... by country or jurisdiction	<ul style="list-style-type: none"> • Maintains sovereign control. • May reduce transaction costs and reduces need to deal with 3rd parties. 	<ul style="list-style-type: none"> • Credits issued by jurisdiction itself could be seen as lacking independence and credibility. • Country or jurisdiction may not have capacity to issue and manage international credits • Lack of fungibility (and comparability) between various ER program credits could create problems for CF.
...by 3 rd party entity	<ul style="list-style-type: none"> • Single currency (credit) could meet multiple donor, voluntary or compliance market or non-market requirements – reducing transaction costs and potential for framework incompatibility. • Existing standards may combine registration and enforcement with crediting, reducing country or CF burden if they otherwise would need to establish such systems. 	<ul style="list-style-type: none"> • CF and jurisdiction must be comfortable with 3rd party program.

VI. Potential Candidate Approaches for the Carbon Fund Guidance, and Rationale

Note: Some of these options could be used in combination.

Recommendation 1. The Carbon Fund should take a high-level approach to setting its methodological framework, including providing indicators, where necessary or helpful, to guide the development of ER programs.

Recalling in Santa Marta (June 2012) that the 4th Carbon Fund meeting recommended and the 12th Participants Committee adopted a resolution that included: *“The methodological framework for the Carbon Fund is **not expected to consist of detailed calculation methods or protocols**. Rather the framework should provide the overarching guidance and act as a standard that is designed to achieve a uniform approach to carbon accounting and programmatic characteristics.”*

Note that the Carbon Fund was designed to demonstrate payments for verified emission reductions from large-scale REDD+ programs. It is not meant to be precedent setting or indicative of future international rules around a REDD+ mechanism. Instead, it was designed to provide early learning opportunities through piloting a variety of approaches. This suggests it would not make sense for the Carbon Fund to take a detailed or strict approach similar to the CDM or project-based standards and methodologies—but instead to allow flexibility for testing approaches, while identifying areas in which it would like some level of uniformity and/or minimum quality.

In taking a high-level approach to establishing its methodological framework, the Carbon Fund might consider providing:

- **High-level criteria and indicators** that help countries to determine if they are, indeed, meeting the methodological framework.
- Clear **procedures**, so that countries understand the step-by-step process necessary to create emission reductions, and potential use of 3rd party standards.
- A **Good Practice Guide**, which could be a living document that captures lessons learned, and methodologies used by ER programs. Such a document could offer guidance and serve as a kind of implicit “positive list” of methodologies/standards for countries in the process of developing ER programs.
- Requirements around what constitutes an acceptable **verification and credit registration** approach, to ensure independent assessment of the emission reductions, establish their clear ownership and help to avoid double counting.

Recommendation 2. The Carbon Fund should allow a mix of approaches for different elements.

The Carbon Fund could remain flexible and: (a) include elements where the Carbon Fund seeks uniformity and/or where the UNFCCC has provided more detailed guidance, but also (b) allow flexibility and room for discovery that enables countries to ascertain in an organic way how best large-scale programs can effectively, efficiently, and practically create emission reductions with high social and environmental value. A flexible approach also recognizes that the CF is designed to pilot and experiment with different approaches, and that a stepwise approach can provide adequate guidance to allow early ER Program proposals to be developed and tested, with the option to provide additional guidance as lessons are learned from early movers.

Recommendation 3. The Carbon Fund should allow, as appropriate, the use of existing 3rd party standards to meet some or all of its methodological framework requirements.

There are a number of independent standards developed over several years through robust and inclusive processes that could be tapped by countries to satisfy various elements of the CF's methodological framework. By allowing ER programs to use such standards, the CF could reduce the burden on itself and ER programs that might otherwise have to develop detailed methodological guidance and requirements. In addition, if desired, certain program elements associated with these standards could then be utilized, such as reversal management, verification, registration and enforcement. Tapping widely recognized standards could generate fungible credits and support the development of ER programs that serve multiple donors and markets.

Sanctioning the use of such 3rd party standards might best be handled on a country by country basis, whereby ER programs interested in applying a given standard for a particular purpose would propose its use in their CF submissions. The approval of such proposals by the CF would establish a precedent regarding the acceptability of certain standards for satisfying specific methodological elements, helping to inform the development of other ER programs operating in a similar context.

Recommendation 4. ERPA contracts could encourage countries or entities to voluntarily meet newer standards or guidance if such a change was cost effective and not too onerous.

To provide predictability to host countries or entities signing ERPAs, the CF should not require entities to meet new guidance or standards that are approved by the CF after a ERPA contract is signed. However, there are advantages to ensuring uniformity in the quality of ERs generated by the Carbon Fund, so updating programs where changes are beneficial and cost effective contributes to the broader interests of the Fund.

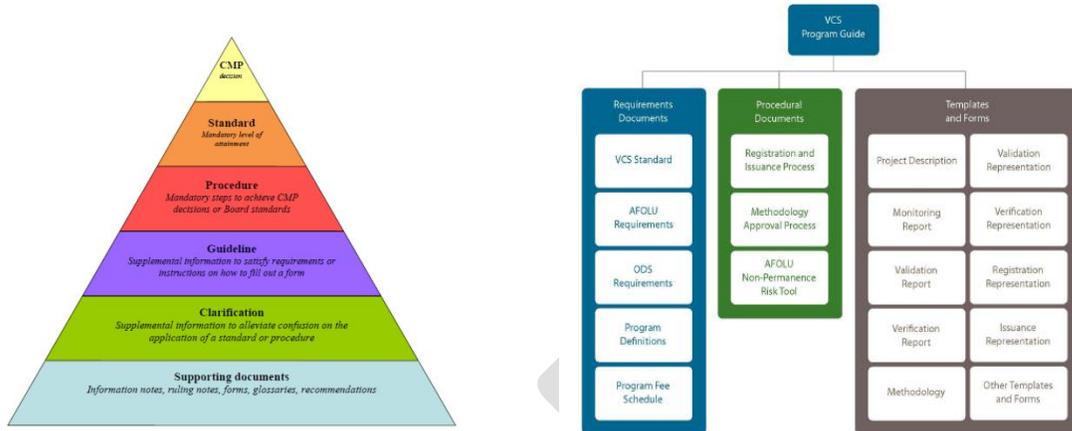
Recommendation 5. The Carbon Fund thus far has focused on producing emission reductions, but should at least consider issuing credits or allowing credit issuance, and allow ER Programs flexibility on what entity issues credits, including the use of credible 3rd party entities.

Any issuance of verified carbon credits should be done by credible, transparent entities that establish clear ownership and reduce the risk of double counting of the emission reductions generated. On this basis, a country should determine the best option from its perspective—whether to issue the credits itself, ask the Carbon Fund itself issue credits, or use an independent 3rd party entity. The CF itself could consider and decide it is well positioned to issue credits.

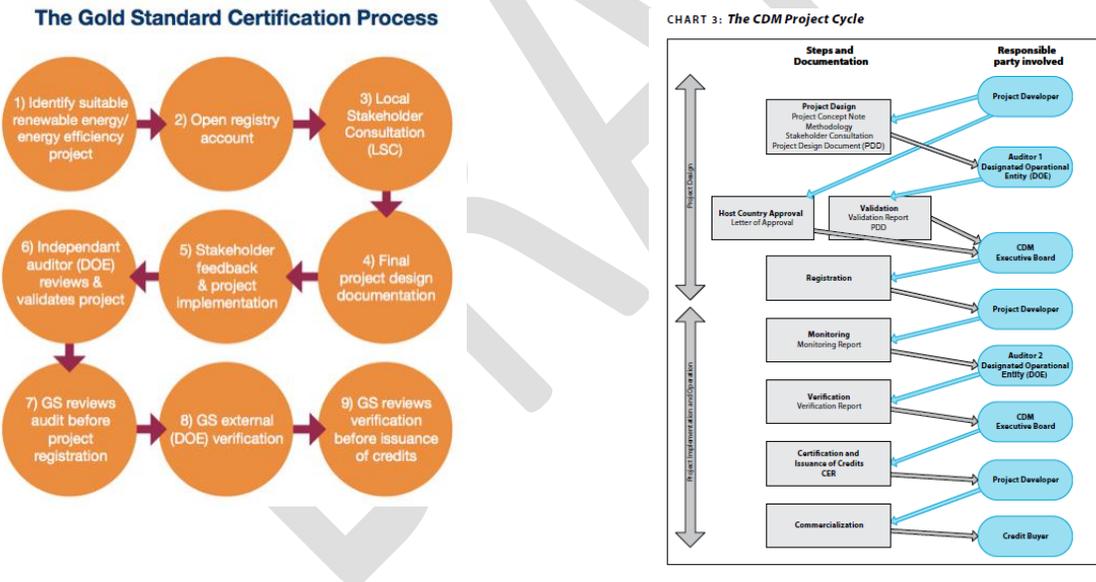
The decision should be made in a way that builds confidence in the transaction and attracts new donors or investors to join the CF or otherwise support the ER programs. Countries should consider whether fungible carbon credits issued by widely accepted 3rd party programs could potentially supply multiple markets and results-based payments mechanisms, including non-market ones. Such programs may offer flexibility and reduce the burden of ER programs having to meet multiple, potentially incompatible demand-side requirements.

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”¹⁰ or “project cycle”¹¹:



¹⁰ <http://www.cdmgoldstandard.org/project-certification/what-is-the-process>

¹¹ http://sei-us.org/Publications_PDF/SEI-WWF-ComparisonCarbonOffset-08.pdf