

**Key consideration for the Methodological Framework of the FCPF Carbon Fund  
based on FCPF REDD+ Design Forum #1  
Reference Levels, MRV, and Carbon Accounting  
January 30<sup>th</sup>, 31<sup>st</sup>, and February 1<sup>st</sup>, 2013 Washington, DC**

**Definitions**

The Design Forum discussions made apparent the need to have clarity around definitions. The FMT will prepare a draft glossary of terms to be used consistently in the meth framework.

**General Approach**

The following key questions were posed:

<b>Guiding principles</b>	<ol style="list-style-type: none"> <li>1. What <b>level of specificity in rule setting</b> does the Carbon Fund (CF) want to provide?</li> <li>2. Does the CF want to <b>use a mix of several approaches to address different issues</b> in the Methodological Framework (MF), or must the CF reach consensus on a single, consistent approach for the whole MF?</li> <li>3. Does the CF want to <b>allow the use of existing standards to satisfy some or all of its methodological framework requirements</b>, and if so what is the best way to sanction such use?</li> </ol>
<b>ERPAs and Crediting</b>	<ol style="list-style-type: none"> <li>1. If an ERPA was signed, and subsequently the Carbon Fund changed its standard or issued new guidance, <b>would a country need to meet the new standard</b> and/or change its methods?</li> <li>2. Should the CF encourage ER program proponents to use, and possibly have credits issued by third party standards?</li> </ol>

**Recommendation after Design Forum:**

- The Carbon Fund (CF) should take a high-level approach to setting its methodological framework, but provide criteria and indicators to guide the development of ER programs and facilitate assessment by CF. Additional good-practice guidance on operationalizing the MF would be helpful to REDD countries.
- The CF should allow a mix of approaches for different elements.
- The CF should allow, as appropriate, the use of existing 3<sup>rd</sup> party standards to meet some or all of its methodological framework requirements, while not formally “adopting” particular standards up front.
- The CF should not require entities to meet new guidance or standards that are approved by the CF after an ERPA contract is signed.

- The CF should consider what role credits issued by other entities (e.g. 3<sup>rd</sup> party standards) might play in producing a fungible (and potentially tradable) asset for REDD Country Participants and CF Participants.

Justification for recommendations:

- There was general agreement that a balance needs to be found between flexibility (to demonstrate/pilot new programs and cater to national circumstances of REDD countries) and the desire of “buyers” to have a level of comfort on the high quality and consistency of ERs
- The creation of high-level criteria and indicators (rather than detailed methodological requirements) were discussed as providing this balance, as well as providing a consistent method for the CF to evaluate ER programs
- Many countries, however, thought it would be useful to have additional and more detailed (voluntary) guidance, which could be provided in a separate document from the C&I requirements. In some cases, guidance could already exist and be referred to by the methodological framework. In other cases it could be necessary to develop such guidance. The process for developing such additional guidance was not discussed.
- Many also thought it would be useful to allow (but not require) countries to meet 3<sup>rd</sup> party standards for greater fungibility of credits and/or the possibility of syndication (i.e. to sell additional credits outside the CF)—but that it would not be appropriate for the CF to formally “adopt” such standards.
- Participants agreed that once a contract was signed, it should not impose changes or additional requirements on a ER Program; that predictability was critical, as well as fair to ER program proponents

Items for Working Group discussion and guidance (based on FMT assessment):

The use of 3<sup>rd</sup> party standards and alternate crediting pathways requires more discussion. For example, in order for an ER-Program (ERP) to produce VCUs or credits under CAR, it will need to apply the full VCS or CAR standards, including procedures for approving the RL, use of verifiers, use of registry etc.

Discussions so far surrounding the ERPA term sheet have assumed that generation of CF ERs would occur first and CF Participants could later convert those to other types of credits. However, given that the CF methodological framework (MF) could be quite high-level and general, REDD Country Participants may see value in using more detailed, existing 3<sup>rd</sup> party standards to help operationalize and guide the development of their ERPs. In such cases, ERPs could use the standard to demonstrate conformity with some/all of the CF MF criteria & indicators (filling any gaps as needed), as well as potentially using the standard to generate fungible credits that may be accepted by a variety of markets and donors. The

desirability of supporting such crediting pathways should be discussed, including whether the associated credits might be acceptable to Tranche A participants.

### **Scale and scope**

The following questions were posed:

<b>SCALE</b>	<b>How should geographic scale be addressed in terms of ER program: (a) implementation, (b) carbon accounting and (c) crediting?</b>
<b>SCOPE</b>	<p><b>Should there be requirements about what <u>activities or categories</u> a country should account for in its ER Program?</b> Can a country account for only a single activity but not others? Can it include new LULUCF activities?</p> <p><b>Should there be a <u>hierarchy of accounting</u>?</b></p> <p><b>Should there guidance on specific <u>carbon pools</u> a country must account for?</b></p>

### **Recommendation on scale after Design Forum:**

- Allow ER programs to implement REDD+ actions on a jurisdictional (national or subnational) or programmatic basis. The CF has decided it does not want to pilot small-scale projects, and therefore activities implemented should be ambitious, demonstrating results from actions at a larger-scale. REDD+ actions (policies, measures, investments, programs, projects) should be in line with the national strategy, but could be implemented on a jurisdictional or programmatic basis.<sup>1</sup>
- Require ER programs to report, and account for, forest emissions at the administrative/jurisdictional scale (e.g. national, state, province, district, etc.). Another national-government designated area could be considered when justified (e.g. an Eco region).

### **Justification for recommendations on scale:**

There was wide support for jurisdictional, “large-scale” programs, but questions were raised regarding:

- Whether limited funding was available to purchase ERs at large scales from multiple ER programs;
- A jurisdiction level (i.e. national or subnational) requirement may not be realistic for some countries; must take into account different political situations in countries; not all have state or jurisdiction capacity or support for REDD+.
- That said, most **did not** feel comfortable with ER program **accounting** at a project or mosaic scale—and that if REDD+ actions/implementation occurred at such scales, accounting should encompass a

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<sup>1</sup> There could be a difference between the ‘target area’ of a REDD+ action and the area for which there is uptake ‘uptake’. For example in voluntary incentive schemes such as in the Costa Rica PES scheme, the policy might be aimed at the whole jurisdiction (i.e. enhanced PES program) but the uptake will only be on small pieces on land from individual owners willing to participate.

larger area (i.e. the boundary of a jurisdiction or other national-government designated area of larger scale).

Items for further discussion and guidance (based on FMT assessment):

The issue of scale, in particular defining “large-scale”, needs to be discussed by the Carbon Fund participants and other stakeholders both inside and outside of the working group context.

Whether and how ER programs (or potentially the CF itself) could credit “nested” projects should be discussed, particularly as it impacts the extent to which ER-programs could use 3rd party standards that might allow this (e.g. VCS).

Recommendation on scope after Design Forum:

- Allow flexibility in the choice of categories or activities of emissions and removals from the forest-sector a country should account for in its Emission Reduction Program, as long as significant sources of emissions are covered. Allow inclusion of additional LULUCF activities (e.g. peatlands) if a country chooses.
- Require inclusion of significant sources of emissions.
- Allow flexibility on the choice of carbon pools for ER programs, as long as it can be demonstrated that this choice is conservative.

Justification for recommendation on scope:

- Countries are choosing activities (e.g. avoiding deforestation, enhancement through regeneration, etc.) based on national circumstances, cost-effectiveness, etc.
- Some countries are developing a land-based accounting approach and others an activity-based approach based to collect data.
- Some countries also want to include additional LULUCF categories, such as croplands or wetlands (peatlands).
- Most agreed that flexibility should therefore be allowed, but that key sources of emissions should not be ignored.
- Interests in ensuring significant sources of emissions are included in the accounting.

Items for further discussion and guidance (based on FMT assessment):

The working group should provide guidance on whether or not other LULUCF categories (e.g. peatlands, croplands, etc.) can be accounted for and credited.

Remains to be discussed whether significant sources of emissions will be assessed based on the whole country or on the ER-program accounting area.

## Reference Level

The following questions were posed:

1. **Relationship to UNFCCC:** How should reference levels for the Carbon Fund (CF) relate to the Reference Emission Levels/Reference Levels (REL/RLs) being created by countries for the UNFCCC?
2. **Performance and crediting:** What should be the relationship between a country's emission reductions relative to the finance a country receives, e.g. should the reference level incorporate a country's domestically supported emission reduction effort (i.e. crediting baseline) and if so, how might it do so?
3. **Additionality:** How should additionality be addressed?, Should a conservative approach to the reference level or additionality tests be used?
4. **Historical emissions:** What reference period, reference region, and forest definition should be used to determine historical emissions?
5. **Adjustments for national circumstances:** How should national circumstances be reflected in the relationship between historical emissions and the reference level?
6. **Transparency:** What standard of transparency regarding data and methods should be required for the approval of a reference level?
7. **Spatial Explicitness:** Can a reference level be based on the quantity of emissions within a jurisdiction, or is it also necessary to be geographically explicit on where these emissions did or will occur?
8. **Scope:** Are separate reference levels necessary for different activities (e.g. deforestation, degradation, carbon stock enhancement...) or can these be integrated into a single reference level?
9. **Updating:** For how long should the reference level be valid?
10. **Multiple scales:** If a country's REDD+ system involves multiple scales (e.g. a "nested" system), should different approaches to reference levels and additionality be considered, or allowed, at different scales?

## Recommendation on Reference Level after Design Forum:

- **Relationship to UNFCCC:** The Carbon Fund should pilot approaches to RLs with a view to start a stepwise process that helps countries develop REL/RLs for the UNFCCC.
- **Payment for performance:** The relationship between performance and payments should be discussed jointly with pricing in the context of an ERPA negotiation. Flexibility on the use of

reference levels and/or separate “Carbon Fund payment baselines” will best reflect the demonstration and piloting mandate of the Carbon Fund.

- **Additionality:** Additionality should be addressed through conservative approaches to setting reference levels or payment baselines, rather than through additionality tests employed by project-level initiatives.
- **Historical emissions:**
  - Methodological consistency should be maintained between estimation of emissions in the reference period and the reporting period
  - Any conservativeness factors to incentivize the reduction of uncertainty should be applied to the emission reductions (reference emissions less monitored emissions) rather than to both reference emissions and monitored emissions
  - Rules for reference period and reference level area should contain as much specificity as possible to avoid cherry-picking of most favorable dates or boundaries. The reference level area should contain the implementation area and should be larger only with convincing justification that it provides for a better representation of the drivers and actors than the implementation area.
  - Forest definition should follow available guidance from UNFCCC decision 12/CP.17.
  - Emissions should be calculated and expressed in tons per year (tCO<sub>2</sub>e/yr).
- **Adjustments for national circumstances:** Downward adjustments should be eligible for any country. Clear rules would need to be defined as to if and how upward adjustments may be permitted.
- **Transparency:** Key data and methods relating to the construction of the RL (data, methods, assumptions..) should be documented and made publicly available online. Detailed information that is sufficient to enable the reconstruction of the RL should be made available to verifiers.
- **Spatially explicit information:** Any spatial information used to construct the reference level should be made transparently available, but the reference level itself should be expressed in tons per year (tCO<sub>2</sub>e/yr).
- **Scope:** Use same approach as found in “Scope” (Issue Paper #1). The RL should be aggregated across all included activities. In addition the RL may be disaggregated by activity for internal purposes, e.g. benefit sharing.
- **Updating:** The RL should remain valid for the lifetime of the ERPA (i.e. until 2020) without updating.
- **Multiple scales:** If a program is operating at multiple scales (e.g. nested project sites within a larger program area), the CF rules for RL and additionality should apply at the highest scale only, maintaining environmental integrity at this scale while providing countries with the flexibility to determine any nested RLs in the context of benefit sharing arrangements.

In addition, updating within the lifetime of the ERPA was discussed. Many felt the RL should be fixed for the lifetime of an ERPA. Updating beyond the ERPA was not thoroughly discussed.

Selected discussion points raised during the Design Forum:

- REDD+ countries suggested that consistency appears as the key principle to foster the credibility of the mechanism. However the availability of historical data may constrain the feasibility of having strong consistency between RL and MRV.
- Historical data are observed values and are therefore the most objective basis to establish RLs.
- Experience from CDM and other mechanisms suggest additionality assessments may not be the most productive way forward; there was strong interest in addressing additionality through conservative RL setting.
- Spatially explicit RLs may be difficult in some circumstances, so a single number may be preferred by some ER programs; others, however, may want better data for policy/program reasons and/or benefit sharing purposes.

Items for further discussion and guidance (based on FMT assessment):

There may be a need to discuss requirements for “upward adjustments for national circumstances” of reference levels.

Several linkages to other elements were also noted that could be useful to discuss including:

- How nested RLs might be related to benefit sharing arrangements;
- How to deal with catastrophic natural events, and if this could be done through some form of adjustments to the RL;
- Cross-linkages to MRV;
- Whether certain adjustments to the RL should be made in the context of ERPA negotiations and pricing discussions.

**MRV**

Discussion focused on uncertainty and ability to actually determine impact of ER-programs (“problem” as identified by Costa Rica). We can measure emissions. We can measure uncertainty around the estimate of emissions, but uncertainty is likely to be high based on Annex 1 countries experience<sup>2</sup>.

The following questions were posed:

- What is the best way to reduce uncertainty over time?
- What constitutes a tolerable level of uncertainty and how estimates with greater uncertainty should be accounted for?

<sup>2</sup> For example, at the 95% confidence level Australia reports 30% uncertainty for emissions related to forest remaining forest (degradation) and 10% uncertainty for Forest converted to non-forest; Germany reports 21,8% uncertainty globally for the LULUCF sector but 59,4% uncertainty for the specific forest remaining forest category.

## Recommendation on MRV after Design Forum

**To reduce uncertainty**, consensus seems to be to focus on the trend using consistent approaches both over time and between the RL and the MRV but more technical discussion is required here.

**Consistency** doesn't necessarily reduce uncertainty around emission estimates, however it ensure that the systematic errors (or bias) is the same across estimates thus reducing uncertainty on the trend.

**Consistency** must be maintained across the start and end dates for each ER period, but as long as this is done there could potentially be a switch/improvement of methods between ER periods. This would involve "doubling up" monitoring in the overlap year (i.e. use the two different approaches for an overlapping time period to understand the bias/change introduced by a new method).

**To account for uncertainty**, it is recommended that uncertainty be assessed using standardized approach (discussions suggest that we are talking about uncertainty on emission reductions (trend) not on emissions (or C stock). In all cases uncertainty must be defined in relation to a given confidence level.

Options to account for uncertainty:

- **Option 1** ER volume is fully discounted based on the calculated uncertainty (eg. 40% uncertainty = 40% discount in ER volume)
- **Option 2** Preset discounts to ER volumes based on certain uncertainty intervals. (E.g. from CDM)

Relative margin of error	Deduction Rate (DR)
Less than or equal to 10%	0%
Greater than 10 % but less than or equal to 30%	6%
Greater than 30% but less than or equal to 50%	12%
Greater than 50% but less than or equal to 100%	21%
Greater than 100%	37%

It was mentioned from a traditional statistical perspective a 95 percent **confidence interval** is assumed, but that this 95 percent confidence interval was a convention and that for the purposes of the Carbon Fund methodological framework the confidence interval could be lower than 95 percent. The appropriate confidence intervals to be used and the implications of this choice were not thoroughly discussed.

### Items for further discussion and guidance (based on FMT assessment):

There may a need to further define *consistency* in the context of the ERP MRV system and its links with the both the ER-program RL and the national RL and MRV system.

The priority in terms of improvements in estimates (between accuracy and confidence intervals) as well as the appropriate mix of incentives for improvements requires some guidance from the working group.

**Leakage and permanence**

The following questions were posed:

<p><b>Leakage</b></p>	<ul style="list-style-type: none"> <li>- How to account for leakage? Should we require monitoring of leakage or allow for other methods to account for leakage?</li> <li>- To what geographic extent should leakage be assessed? E.g., within the region surrounding the accounting area only? Or for the whole country? International leakage?</li> </ul>
<p><b>Permanence</b></p>	<ul style="list-style-type: none"> <li>- Permanence Period: How long must carbon from verified Emissions Reductions (ER) be stored? The Carbon Fund is slated to end in 2020. Should requirements for permanence last only until 2020, or longer (e.g., until 2030-2040)?</li> <li>- Should low risk REDD+ activities be exempted from permanence requirements?</li> <li>- Should advance screening to calculate risk of reversal be required for ER Programs?</li> <li>- Who is liable for reversals (seller, buyer or system)?</li> <li>- Should the Carbon Fund address intentional reversals or just unintentional reversals?</li> <li>- In the Carbon Fund pay-for-performance context, what actions would be acceptable to address reversal? Would addressing a reversal in the Carbon Fund require replacement of tons, repayment of funds, or a combination?</li> </ul>

**Recommendation Leakage and permanence after Design Forum:**

Regardless of whether ERPs are creating ERs for Tranche A or B, the CF should only compensate for measured, reported and verified emission reductions that can be sustained (guaranteed) over the long term (beyond 2020)

1) ERPs should be designed to minimize leakage and reversal risks:

- Leakage and reversal risks should be assessed upfront and addressed to the extent possible in the ERP design (e.g. by making up for potential lost commodity supply, and associated market leakage risk, through production intensification and/or use of degraded lands). This implies the development of a risk assessment tool or use of an existing tool (VCS or other?)
- Some mention the need to “demonstrate” that permanence and leakage risk mitigation activities are being implemented as part of ERP REDD+ actions. This demonstration could be done through the Safeguards Information System (SIS).

## 2) ERPs should account for potential leakage and reversals:

- Leakage and reversals should be accounted for and only net emission reductions compensated for.
- Since direct monitoring for leakage may be challenging, lookup table or other methods to estimate (and deduct for) leakage may be used.
- Some mentioned that reversals (and leakage) would be best addressed through the use of buffers.
- It was also suggested that Buffer ERs could be released based on reporting of successful implementation of reversal (and leakage) risk mitigation activities thus incentivizing proper implementation of safeguards as well as the development of an effective SIS.
- The issue of who manages this buffer as well as the more general issue of assigning liability for residual reversals (seller, buyer or shared, or program (e.g. VCS buffer) were discussed but no recommendation was made.
- The issue of how to account for natural disturbances was discussed however no formal recommendation was formulated.

### Items for further discussion and guidance (based on FMT assessment):

The linkages between accounting issues such as leakage and reversals and safeguards implementation need to be discussed.

The issue of liability for reversals during the ERPA and beyond warrants further discussions and guidance by the working group as it impacts the options for accounting for reversals.

### Next steps and timelines

Based on programmatic and accounting elements of the methodological framework, the TAP and FMT will draft criteria and indicators for each issue with the associated justifications (or rationale).

Based on discussions, the TAP and FMT will identify gaps in the existing papers and update them to reflect current thinking and to increase the transparency of the MF development process.