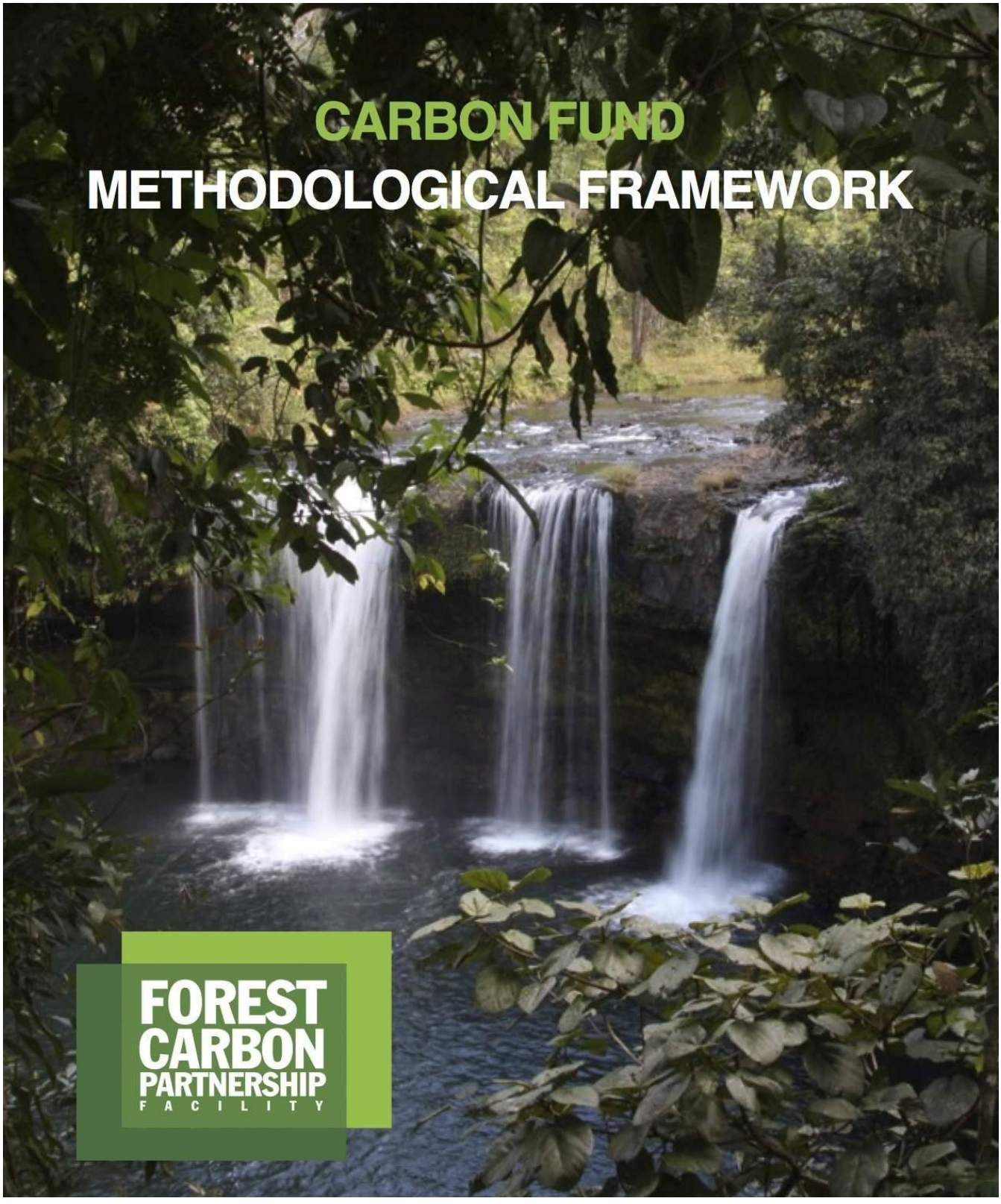

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Table of Contents

1. GENERAL APPROACH 1
2. LEVEL OF AMBITION 4
   2.1 Scale and Ambition 4
3. CARBON ACCOUNTING 5
   3.1 Scope and methods 5
   3.2 Uncertainties 7
   3.3 Reference Levels 9
   3.4 Measurement, Monitoring and Reporting on Emission Reductions 12
   3.5 Accounting for Displacement (Leakage) 13
   3.6 Accounting for Reversals (Non-permanence) 14
   3.7 Calculation of ERs 16
4. SAFEGUARDS 18
   4.1 Actions to Meet World Bank Safeguards and Promote and Support Cancun Safeguards 18
5. SUSTAINABLE PROGRAM DESIGN AND IMPLEMENTATION 21
   5.1 Drivers and Land and Resource Tenure Assessments 21
   5.2 Benefit Sharing 23
   5.3 Non-Carbon Benefits 25
6. ER PROGRAM TRANSACTIONS 27
   6.1 ERPA Signing Authority and Transfer of Title to ERs 27
   6.2 Data Management and ER Transaction Registries 28

1. GENERAL APPROACH

The Forest Carbon Partnership Facility (FCPF) is designed "to assist developing countries in their efforts on reducing emissions from deforestation and/or forest degradation", conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks ("REDD+") "by building their capacity and developing a methodological and policy framework that provides incentives for the implementation of REDD+ programs" (Charter of the FCPF, page 1).

Specifically, the FCPF has the following objectives (per the Charter, page 11):

- "To assist Eligible REDD Countries in their efforts to achieve Emission Reductions from deforestation and/or forest degradation by providing them with financial and technical assistance in building their capacity to benefit from possible future systems of positive incentives for REDD;
- To pilot a performance-based payment system for Emission Reductions generated from REDD activities, with a view to ensuring equitable benefit sharing and promoting future large-scale positive incentives for REDD;
- Within the approach to REDD, to test ways to sustain or enhance livelihoods of local communities and to conserve biodiversity; and
- To disseminate broadly the knowledge gained in the development of the Facility and implementation of Readiness Preparation Proposals and Emission Reductions Programs."

In order to achieve these objectives, the Facility comprises the following two funds:

a) A Readiness Fund; and
b) A Carbon Fund.

The Carbon Fund is designed to pilot the implementation of REDD+ programs, via use of positive incentives. Carbon Fund Participants seek both to achieve net emission reductions across the portfolio, and to pilot REDD+ across a diverse set of countries, including countries that have historically experienced low deforestation rates. Carbon Fund Participants will take this into account when selecting Emission Reductions Programs (ER Programs) into the portfolio of the Carbon Fund.

The FCPF envisions the need for a Methodological Framework (MF) that would provide guidance to the development of these pilots, as noted in the Charter. The Methodological Framework complements other documents and processes that together contribute to the development and selection of REDD+ Programs. This relationship is illustrated in the Process Guidelines.

As a first step in the development of the Methodological Framework, the Participants Committee (PC) of the FCPF adopted a set of guiding principles in the *Recommendations of the Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF (2012)*[1]. The PC requested the FCPF's Facility Management

[1] Resolution PC/12/2012/3
http://www.forestcarbonpartnership.org/sites/forestcarbonpartnership.org/files/Documents/PDF/July2012/Resolution%203%20Meth%20Fmwk%20and%20Pricing.pdf and
http://www.forestcarbonpartnership.org/sites/forestcarbonpartnership.org/files/Documents/PDF/July2012/FMT%20Note%202012M8%20Working%20Group%20Recommendations%2006M11M2012%20English.pdf

Team and the Carbon Fund to further develop the Methodological Framework by building on the elements and rationales contained in these Guiding Principles while taking into account the needs of REDD Country Participants as well as Carbon Fund Participants.

In its principles (referred to as "elements", with accompanying rationales), the PC indicated that "the Methodological Framework for the Carbon Fund (CF) 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 consistent approach to carbon accounting and programmatic characteristics". As a result, Carbon Fund Participants decided to use a set of criteria and indicators (C&I) to elaborate requirements for ER Programs to be piloted in the Carbon Fund. This decision was made in consideration of trade-offs among a number of factors: simplicity of methods, flexibility to pilot approaches and encourage innovation, consistency of Emission Reductions (ERs), and predictability of assessment of ER Programs.

ER Programs are expected to demonstrate conformity with the Carbon Fund's Methodological Framework and the criteria and indicators listed in this document. This Framework may be refined from time to time, after the first few ER PINs or ER Programs proceed and lessons are learned, or as new guidance on REDD+ is provided by the UNFCCC. However, while the Carbon Fund encourages ER Programs to consider meeting such refinements on a voluntary basis, it will not require ER Programs, once an ERPA is signed, to meet new or revised criteria and indicators that may be subsequently approved by the CF.

Additional operational information for ER programs, including information on World Bank due diligence and operational polices, and non-binding good practice guidance, may be produced in separate documents to complement the MF and shared to assist ER Programs in meeting the Framework's requirements. Good practice guidance may take the form of links to existing guidance, methods, and examples of practices by REDD+ countries, with some guidelines or decision support tools added where needed. The capacity of the ER Program to implement and monitor the ER Program will be assessed by the World Bank as part of its due diligence process.

Structure of this document:

Each section begins with the relevant elements from the FCPF Participants Committee Guiding Principles document of June 2012, which offered PC guidance to the Carbon Fund's work developing the MF. The section then provides a context and rationale for the criteria and indicators that are included. Capitalized terms used in the MF are defined in the FCPF Carbon Fund Glossary of Terms.

Some linkages across sections are indicated, since some topics overlap and ER Programs are likely to build on country REDD+ readiness activities and to be embedded in dynamic sustainable development contexts. To ensure that the results achieved by ER Programs will be long-lasting, C&Is that contribute to sustainable design and implementation are spread throughout the MF. The MF emphasizes the importance of sound ER Program design and implementation by asking for clarity on how the ER Program addresses the drivers of deforestation and forest degradation.

The ER Program also is asked to identify effective incentives it would provide to facilitate changes in land-use behavior to reduce deforestation and degradation (in Section 5). The MF reinforces the linkages between ER Program design and how the ER Program deals with Displacement and Reversal risks (Section 3). To ensure transparent and inclusive processes, as well as environmental and social integrity, environmental and social safeguards are addressed in Section 4, while Benefit Sharing, Non-Carbon Benefits as well as issues such as resource rights and land tenure are included in Section 5 of this document.

The content of the MF is not intended to prejudice the outcome of the UNFCCC negotiation process with regard to REDD+, but instead may be modified, if necessary, in accordance with any relevant guidance existing or emerging under the UNFCCC negotiation process. Furthermore, the content of the MF is specific to the CF and neither represents nor prejudices any CF Participant's or REDD+ Country Participant's official position on issues related to REDD+ under the UNFCCC negotiation process or any other REDD+ initiative.

Timing Considerations in ER Programs and in this Document
• In general, ER Programs are expected to meet the requirements stated by the criteria and indicators at the time the final ER Program Document is submitted to the CF, and continuing through implementation. • Some requirements, however, shall be met at the time of ERPA signing or at other points during the implementation of the ER Program (e.g., during periodic verifications), and their timing is noted. • The templates for the ER-PIN, ER Program Document, and ER Program Monitoring Report (as amended) will specify in detail what information is to be included in each document.

2. LEVEL OF AMBITION

2.1 Scale and Ambition

"Programmatic Element 2: Scale and Ambition
The ER Program is ambitious, in that it demonstrates at a large scale the potential of the full implementation of the variety of interventions of the national REDD+ strategy, covering a significant portion of the territory."

-- FMT Note 2012-8: Recommendations of the Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF (2012)

Context and Rationale for the C&I:
To date most REDD+ transactions have relied on a project-based approach. The ambition of the Carbon Fund is to test large-scale approaches that require a mix of policies and investments, integration with national development strategies, use of innovative financial structures, and involvement of multi-stakeholder approaches. Large-scale accounting is more likely to capture the wide range of REDD+ drivers, provide ER Programs with incentives to establish comprehensive REDD+ strategies, and generally enhance the environmental integrity of the system.

Criterion 1: The proposed ER Program is ambitious, demonstrating the potential of the full implementation of the variety of interventions of the national REDD+ strategy, and is implemented at a jurisdictional scale or programmatic scale.

Indicator 1.1: The ER Program Measures aim to address a significant portion of forest-related emissions and removals.

Indicator 1.2: The ER Program is ambitious, uses new or enhanced ER Program Measures to reduce emissions or enhance removals, is undertaken at a jurisdictional scale and/or takes a programmatic approach (i.e., involves multiple land areas, landowners or managers within one or several jurisdictions), and reflects a variety of interventions from the national REDD+ strategy in a coordinated manner.

Criterion 2: The Accounting Area matches a government-designated area that is of significant scale.

Indicator 2.1: The Accounting Area is of significant scale and aligns with one or more jurisdictions; or a national-government-designated area (e.g., ecoregion) or areas.

3. CARBON ACCOUNTING

3.1 Scope and methods

"Overarching Accounting and Programmatic Element: Consistency with UNFCCC principles
The Emission Reduction Program (ER Program) strives to be consistent with evolving UNFCCC decisions on REDD+, particularly guidance and principles in place at the time of ERPA signature, as relevant and feasible.

Relevant principles include those on transparency, consistency, completeness, and accuracy. Relevant guidance includes decisions on, for example, safeguards and reference levels."

-- FMT Note 2012-8: Recommendations of the Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF (2012)

Context and Rationale for the C&I:
ER programs should be allowed flexibility in the choice of sources and sinks they will account for. However, ER Programs must account for emissions from deforestation; and emissions from forest degradation must be accounted for where emissions are estimated to be significant.

Excluding certain pools (for example, soil carbon) is usually conservative for activities related to avoided deforestation and degradation. However, in some cases, such as reforestation activities involving heavy ground disturbance from land clearing and planting, or forest management on drained peat land, soil carbon emissions may be significant and should be accounted for to maintain environmental integrity.

Criterion 3: The ER Program can choose which sources and sinks associated with any of the REDD+ Activities will be accounted for, measured, and reported, and included in the ER Program Reference Level. At a minimum, ER Programs must account for emissions from deforestation. Emissions from forest degradation also shall be accounted for where such emissions are significant.

Indicator 3.1: The ER Program identifies which anthropogenic sources and sinks associated with any of the REDD+ Activities will be accounted for in the ER Program.

Indicator 3.2: The ER Program accounts for emissions from deforestation.

Indicator 3.3: Emissions from forest degradation are accounted for where such emissions are more than 10% of total forest-related emissions in the Accounting Area, during the Reference Period and during the Crediting Period. These emissions are estimated using the best available data (including proxy activities or data).

Criterion 4: The ER Program shall account for, measure, and report, and include in the ER Program Reference Level, significant Carbon Pools and greenhouse gases, except where their exclusion would underestimate total emission reductions.

Indicator 4.1: The ER Program accounts for all Carbon Pools and greenhouse gases that are significant within the Accounting Area, both for Reference Level setting and Measurement, Monitoring and reporting (MMR).

Indicator 4.2: Carbon Pools and greenhouse gases may be excluded if:

i. Emissions associated with excluded Carbon Pools and greenhouse gases are collectively estimated to amount to less than 10% of total forest-related emissions in the Accounting Area during the Reference Period; or
ii. The ER Program can demonstrate that excluding such Carbon Pools and greenhouse gases would underestimate total emission reductions.

Criterion 5: The ER Program uses the most recent Intergovernmental Panel on Climate Change (IPCC) guidance and guidelines, as adopted or encouraged by the Conference of the Parties as a basis for estimating forest-related greenhouse gas emissions by sources and removals by sinks[2].

Indicator 5.1: The ER Program identifies the IPCC methods used to estimate emissions and removals for Reference Level setting and Measurement, Monitoring and reporting (MMR).

Criterion 6: Key data and methods that are sufficiently detailed to enable the reconstruction of the Reference Level, and the reported emissions and removals (e.g., data, methods and assumptions), are documented and made publicly available online. In cases where the country's or ER Program's policies exempt sources of information from being publicly disclosed or shared, the information shall be made available to the third party validation and verification body and a rationale is provided for not making these data publicly available. In these cases, reasonable efforts shall be made to make summary data publicly available to enable reconstruction.

Indicator 6.1: The following methodological steps are made publicly available:

- Forest definition;
- Definition of classes of forests, (e.g., degraded forest; natural forest; plantation), if applicable;
- Choice of activity data, and pre-processing and processing methods;
- Choice of emission factors and description of their development;

[2] e.g., UNFCCC 4/CP.15

- Estimation of emissions and removals, including accounting approach;
- Disaggregation of emissions by sources and removal by sinks;
- Estimation of accuracy, precision, and/or confidence level, as applicable;
- Discussion of key uncertainties;
- Rationale for adjusting emissions, if applicable;
- Methods and assumptions associated with adjusting emissions, if applicable.

Indicator 6.2: For the following spatial information, maps and/or synthesized data are displayed publicly, and reasonable efforts are made to explain how these were derived from the underlying spatial and other data, and to make key data sets or analyses publicly available:

- Accounting Area
- Activity data (e.g., forest-cover change or transitions between forest categories)
- Emission factors
- Average annual emissions over the Reference Period
- Adjusted emissions
- Any spatial data used to adjust emissions, if applicable.

3.2 Uncertainties

"Accounting Element 1: Stepwise approach to reduce uncertainties
ER Program data and methods are consistent with IPCC Tier 2, and ER Programs should, by using conservative assumptions and quantitative assessment of uncertainties, be incentivized to reduce uncertainties associated with all aspects of accounting, inter alia, reference levels, monitoring, and reporting (i.e., such that reductions in uncertainty are rewarded by a corresponding upward Adjustment in ER volume)."

*-- FMT Note 2012-8: Recommendations of the Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF (*2012*)*

Context and Rationale for the C&I:
Uncertainties arise in Reference Level setting and Measurement, Monitoring and reporting. Uncertainty (the lack of knowledge of the true value) is due to both random and systematic errors. Uncertainties can be addressed in a number of ways. Systematic errors (bias) should be avoided by good Measurement practices. Random errors tend to cancel each other out and can be managed by sampling. Using standard approaches to assessing uncertainty allows for comparability between ER programs.

ER Programs are required to follow a 3-step process to ensure consistency:
1. Identify and assess sources of uncertainty
2. Minimize uncertainty where feasible and cost effective
3. Quantify remaining uncertainty.

Criterion 7: Sources of uncertainty are systematically identified and assessed in Reference Level setting and Measurement, Monitoring and reporting.

Indicator 7.1: All assumptions and sources of uncertainty associated with activity data, emission factors and calculation methods that contribute to the uncertainty of the estimates of emissions and removals are identified.

Indicator 7.2: The sources of uncertainty identified in Indicator 7.1: are assessed for their relative contribution to the overall uncertainty of the emissions and removals.

Criterion 8: The ER Program, to the extent feasible, follows a process of managing and reducing uncertainty of activity data and emission factors used in Reference Level setting and Measurement, Monitoring and reporting.

Indicator 8.1: Systematic errors are minimized through the implementation of a consistent and comprehensive set of standard operating procedures, including a set of quality assessment and quality control processes that work within the local circumstances of the ER Program.

Indicator 8.2: Random errors and other uncertainties are minimized to the extent practical based on the assessment of their relative contribution to the overall uncertainty of the emissions and removals.

Criterion 9: Uncertainty of activity data and emission factors used in Reference Level setting and Measurement, Monitoring and reporting is quantified in a consistent way, so that the estimation of emissions, removals and Emission Reductions is comparable among ER Programs[3].

Indicator 9.1: Uncertainty associated with activity data and emission factors is quantified using accepted international standards, for example by providing accuracy, confidence interval, distribution of error, and propagation of error. Where errors in data and methods are considered large as defined in IPCC Guidelines, Monte Carlo methods (numerical simulations) shall be used to estimate uncertainty[4].

[3] This uncertainty is subsequently applied in the calculation of Emission Reductions, refer to Criterion 22.
[4] 2006 IPCC Guidelines for National Greenhouse Gas Inventories (Volume 1, Chapter 3, Section 3.2).