

THE FCPF CARBON FUND

Piloting REDD+
programs at scale



The Carbon Fund of the Forest Carbon Partnership Facility (FCPF) will provide **payments for verified emission reductions from activities that reduce emissions from deforestation and forest degradation and conserve forests (REDD+)**. Such performance-based payments will play an essential part in **valuing forests more while they are standing than when they are cut**.

Carbon Fund Participants will **select about five large-scale Emission Reduction Programs (ER Programs)** in countries that have made significant progress in their REDD+ readiness endeavors. ER Programs will be selected based on the scale of the program and its potential to generate a significant volume of high-quality and sustainable ERs, its technical soundness, expected benefits, and the diversity and learning value it offers to the Carbon Fund and the international community, amongst other criteria.

In order to pilot performance-based payments at scale, the Carbon Fund will **support countries in scaling up activities towards jurisdictional or national level programs**. To this end, countries are assisted in establishing proper frameworks to facilitate for future financing under the UNFCCC or other future international mechanisms, and to generate high-quality emission reductions that are good for the climate, good for the people and good for the local environment.

WHAT IS THE VALUE OF PARTICIPATING IN THE CARBON FUND?

Participating in the Carbon Fund provides a REDD+ country with:

- **An opportunity to be a front-runner in innovating on large-scale land-based carbon finance**
- **Performance-based payments** for verified emission reductions
- **Technical assistance** and **access to cutting-edge knowledge** on REDD+
- **Experience with working towards alignment of national REDD+ frameworks and systems with emerging international guidance**
- **New incentives for sustainable land-use that contribute to sustainable development goals.**

WHAT TYPES OF ER PROGRAM ACTIVITIES WILL THE CARBON FUND SUPPORT?

Potential ER Programs should address key drivers of deforestation and degradation and/or barriers to forest carbon stock enhancement identified in a country's national REDD+ strategy. Activities may involve policy and legal reforms in forest or land management



Examples of ideas presented to the Carbon Fund to date include:

TITLE	PROPOSED ACTIVITIES	LAND-AREA TARGETED	PROGRAM SCALE
Costa Rica	Expanding the existing national program of Payment for Environmental Services (PES) into additional lands and land use activities, with a focus on regeneration of degraded lands.	341,000 ha covering a set of parcels on private land and in indigenous territories	Quasi-national
Democratic Republic of Congo	Reduced-impact logging, afforestation/reforestation, agroforestry, bushfire control, natural regeneration, conservation concessions, community forest management, and energy efficiency; Partners involved: Government, Indigenous Peoples, civil society, logging and cattle ranching industry, World Wildlife Fund (WWF), Ecosystem Restoration Associates - Wildlife Works Carbon (ERA-WWC)	12.3 million ha in Mai Ndombe province near Kinshasa (74% forest cover)	Sub-national
Chile	Sustainable timber production, forest carbon stock enhancement, community forests on indigenous lands, forest conservation, reforestation, and focus on natural forest degradation.	16.3 million ha (2 million ha reforestation, 6 million ha forest carbon stock enhancement, 8.3 million ha sustainable forest management)	National
Ethiopia	Reduced deforestation; carbon stock enhancement. Partners involved: Ministry of Agriculture, Oromia Forest and Wildlife Enterprise, Farm Africa/SOS Sahel, Ethiopian Forest Coffee Forum.	57 forest areas scattered in the Oromia region of Southern Ethiopia, totaling 2.9 million ha	Sub-national
Ghana	Cocoa production areas in the high forest zone in the Southwest, or Shea landscape in the savannah region in the North. Enhanced cocoa production through improved varieties thereby reducing expansion of cocoa areas, in a mosaic landscape consisting of trees, fallow lands, food crops and forest trees. A vision document is in preparation based on dialogue with interested stakeholders including the COCOBOD (Ghana's cocoa authority and regulatory body).	Very preliminary estimate: 459,852 ha for cocoa areas by 2032. Scalable to 1.5 million ha.	Eco-region
Mexico	Expanding existing PES national program to a landscape approach, sustainable management of natural forests, improvement of forest management through community capacity-building, improvement of coordination between forest activities and other activities (livestock, agriculture, tourism, etc.), removal of barriers to investment in forest management, and contribute to the development of sustainable agriculture and other economic options for communities.	"Early action" priority areas are located in the States of Oaxaca, Jalisco, Chiapas, Yucatan, Campeche, and Quintana Roo.	Sub-national jurisdictional
Nepal	Building on examples of piloting benefit-sharing in community-managed forests (NORAD in three watersheds, WWF in the Terai (southern plains). Detailed program activities not yet defined.	Very preliminary estimates (based on WWF work): 55,000 ha of avoided deforestation for 2015-2050 in western Terai	Ecoregion
Republic of Congo	Improved forest management, avoided deforestation, carbon stock enhancement; reduced impact logging, conservation concessions, agroforestry, afforestation / reforestation Partners involved: CIB-OLAM, Carbon Conservation	12.2 million ha in Northern Congo (Sangha/Likouala departments)	Sub-national
Vietnam	All five REDD+ activities and land-based carbon accounting. Reform of state-owned enterprises (state forest companies), i.e., improved management practices plus afforestation/reforestation.	3.4 -7 million ha (including two provinces in central coastal regions that have been the focus of piloting activities under the UN-REDD phase 1 in 2009-12 and supported by bi-lateral partners.)	Sub-national



Costa Rica was the first country to have its ER Program Idea Note (ER-PIN) selected into the pipeline of the Carbon Fund.

– An overview of its proposal

Objective: To achieve and sustain national carbon neutrality and contribute to poverty reduction by expanding an inclusive forestry and agroforestry-based development model.

Key features:

- Expanding avoided deforestation to additional lands
- Greatly expanding carbon sequestration of degraded lands, with high co-benefits
- Increasing participation of indigenous communities
- Increasing sustainable wood production and consumption (to replace higher GHG-emitting construction materials)
- Implementing sustainable forest management and agroforestry as a conservation and climate change adaptation instrument
- Adding value to forest lands and forest products (e.g., timber for building materials) to contribute to poverty reduction

Strengths:

- Builds on long-term experience with Payment for Environmental Services (PES)
- Demonstrated institutional capacity
- Significant scale of program (both geographic and in terms of ERs)
- Proposed use of advanced state of the art MRV methods (Inventory and LIDAR)
- Based on inclusive process with active stakeholder participation
- Private sector participation in program implementation
- Estimated co-benefits in rural poverty, biodiversity conservation and water quality
- Embedded in broader national goal of carbon neutrality and poverty reduction



(including community forestry), improvements in land tenure, establishment of parks and forest reserves, or intensification of agricultural activities, among others, or could include a combination of activities. It is important to highlight that drivers of deforestation and degradation are often located outside the forest and that non-forest policies and measures are also relevant to achieve the desired results.

To date, program ideas that have emerged at the country level have originated from government ministries and agencies, multilateral and bilateral donors, and NGOs and civil society organizations active in the area.

WHAT ARE THE DESIRED CHARACTERISTICS OF POTENTIAL ER PROGRAMS?

The Carbon Fund is seeking ambitious ER Programs that demonstrate at a large scale the implementation of a variety of interventions of the national REDD+ strategy and cover a significant portion of the territory. More specifically, ER Programs will need to:

- Be **submitted by a government or a government-approved entity**; and demonstrate high-level and cross-sectoral **political commitment** by the Government to the ER Program and to implementing REDD+.
- Be implemented either at the **national level or at a significant sub-national scale¹**, and generate a large volume of **high-quality and sustainable ERs** (including environmental and social benefits, and the minimization of the risk of non-permanence);
- Be consistent with the emerging **Methodological Framework for the Carbon Fund and evolving UNFCCC decisions on REDD+**;
- Be **technically sound**, as well as demonstrate **capacity to measure and report ERs**, and

¹ Sub-national programs must fit in the National REDD+ strategy and national accounting system (reference level, MRV)

provide for an assessment of and measures to minimize the risk of displacement of emissions (leakage), reversals (non-permanence) and other relevant risks;

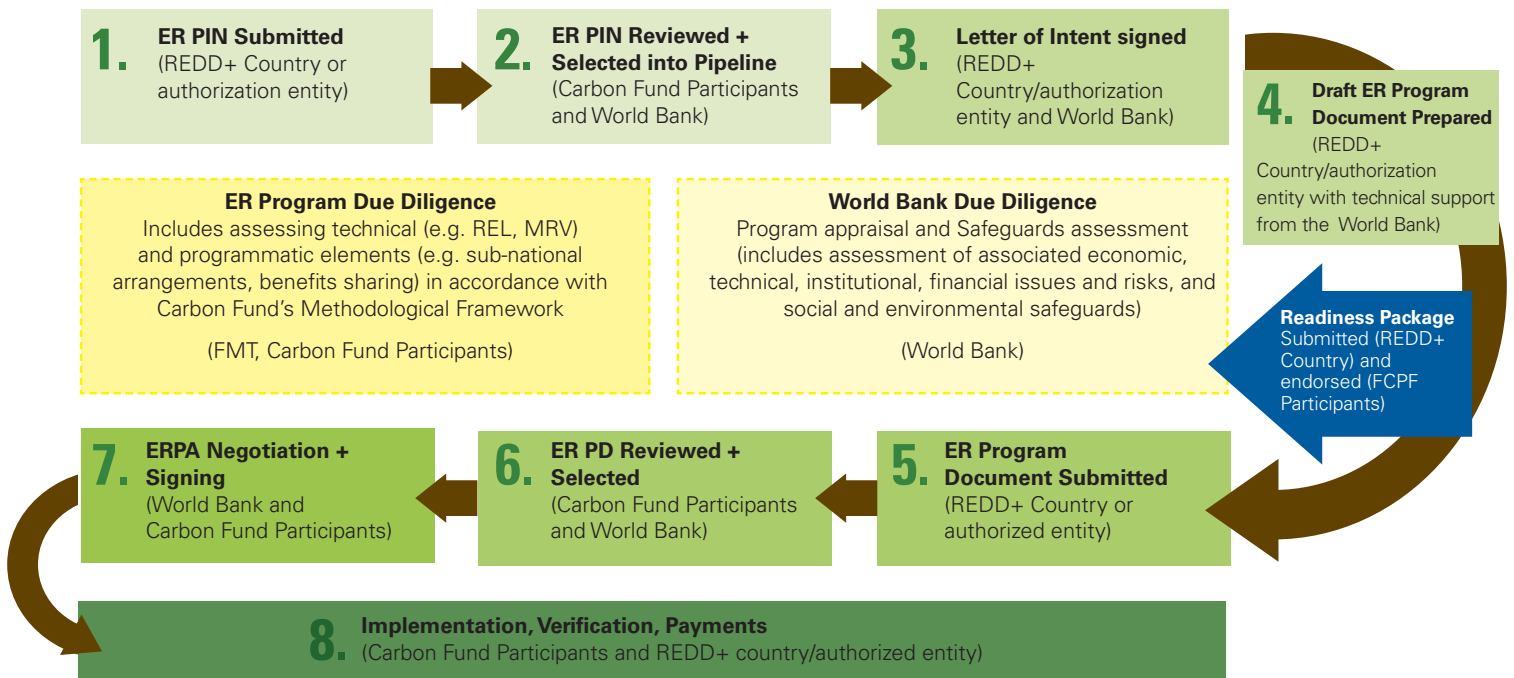
- Be based on transparent **stakeholder consultations**;
- Use clear and transparent **benefit-sharing mechanisms** with broad community support;
- Generate substantial **non-carbon benefits**;
- **Add diversity to and generate learning value** for the Carbon Fund.

In addition, a country will need to demonstrate: i) considerable **progress towards REDD+ Readiness** (including the development of a national REDD+ strategy and REDD+ policies, the design of reference levels and monitoring systems, and institutional capacity to manage REDD+, including governance, and environmental and social safeguards, and ii) have had its **Readiness Package endorsed by the FCPF Participants Committee**.

WHAT IS THE PROCESS FOR ER PROGRAM SELECTION AND IMPLEMENTATION?

1. Countries that have prepared a Readiness Preparation Proposal (R-PP) and made progress towards REDD+ readiness may apply, or authorize an entity within their country to apply, to the Carbon Fund by submitting an Emission Reductions Program Idea Note (ER PIN), using the template provided by the FCPF.
2. Carbon Fund Participants and the World Bank review a country's ER PIN, taking into account any inputs from a Technical Advisory Panel. Based on this review, Carbon Fund Participants may select the ER PIN into the Carbon Fund pipeline, and allocate funding (up to US\$650,000) to further develop the idea into an ER Program.

3. The World Bank, as Trustee of the Carbon Fund, and the REDD+ country (or authorized entity) sign a Letter of Intent.
4. With technical assistance from the World Bank, the country (or authorized entity) develops the program idea into a full-fledged program design that is documented in a draft ER Program Document (ER PD). Based on the draft ER PD, the due diligence process is performed by the World Bank and the Fund Management Team, taking into account inputs from a Technical Advisory Panel, if any. The due diligence process includes overall program appraisal, and assessment of social and environmental safeguards, reference level, monitoring system, and institutional arrangements: based on the feedback received during the due diligence process, the REDD+ country (or authorized entity) improves the program design and finalizes the ER PD.
5. Meanwhile, the country has made significant progress towards REDD+ readiness. The country prepares and submits a Readiness Package to the FCPF Participants Committee (a governing body of the FCPF). On the basis of an assessment of the country's progress towards REDD+ readiness, the FCPF Participants Committee (PC) endorses the country's R-Package.
6. Once the R-Package has been endorsed by the PC, the country (or authorized entity) can submit the final ER PD for review and potential selection by the Carbon Fund Participants into the Carbon Fund portfolio.
7. Once the ER Program is accepted by the Carbon Fund Participants into the Carbon Fund portfolio, the World Bank drafts an Emission Reductions Payment Agreement (ERPA) based on terms agreed by the REDD+ country and Carbon Fund Participants. The ERPA is signed by the REDD+ country entity and the World Bank as Trustee of the Carbon Fund.
8. The ER Program is then implemented, progress with implementation is reported, and once verifiable emission reductions are generated and independently verified, payments are made to the REDD+ country, and emission reductions are transferred to the Carbon Fund Participants.





FREQUENTLY ASKED QUESTIONS

Who can submit an ER Program Idea Note (ER PIN)?

An ER PIN can be submitted by the governments of the 36 FCPF REDD Country Participants or government-approved entities in these countries. As long as the entity has the approval of the REDD+ focal point or authorized representative, an ER PIN can be submitted by a project developer, an NGO, CSO or community group among others.

What is the targeted timeframe for submission of ER PINs?

To build the desired portfolio of programs and to maximize the duration of ER Programs during the Fund's existence, the Carbon Fund is targeting the signature of about five Emission Reductions Payment Agreements (ERPAs) by the end of 2015. Therefore, ER PINs should be submitted by early 2014.

Is the World Bank the only Delivery Partner?

Yes, currently the World Bank is the only delivery partner (i.e., implementing agency) for the Carbon Fund. The World Bank also acts as the trustee (i.e., the administrator of the Fund). Specialized teams in the World Bank provide support services for financial transactions, legal guidance, technical and operational aspects. The application of the World Bank's safeguard policies to Carbon Fund operations ensures the environmental and social soundness of the ER Programs and further fosters broad stakeholder participation.

Will the Carbon Fund buy all emission reductions generated by a program?

In most cases the Carbon Fund will only buy a small portion of the total ERs generated by a large-scale program. However, the size of the portion the Carbon Fund purchases will ultimately depend on the overall ER volume generated by a particular ER Program. Based

on the current capitalization of the Carbon Fund at approximately US\$390 million and the target portfolio of about five ER Programs, the average volume of ERs purchased per ER Program would be equivalent to a value of about US\$60-70million.

Should other funding be sourced to develop and implement an ER Program?

In general, Carbon Fund payments will be complementary to financing from other sources. Government resources, private sector investments and internationally funded programs, such as those supported by the Forest Investment Program (FIP), the Global Environment Facility (GEF), the Congo Basin Forest Fund, the UN-REDD Programme, the World Bank, and other multilateral and bilateral initiatives, are increasingly providing specific funding possibilities to fill the REDD+ financing gap of the readiness and investment phases.

What are the contractual arrangements?

Once an ER Program Document (ER PD) is approved by the Carbon Fund Participants, it is accepted in the portfolio of the Carbon Fund. The World Bank, as Trustee of the Carbon Fund, drafts an ERPA containing non-negotiable General Conditions and a set of negotiable commercial terms to be agreed by the REDD+ country and the Carbon Fund Participants. The ERPA is signed by the REDD+ country entity and the World Bank as Trustee.

How much will the Carbon Fund pay?

The payment per ton for ERs will be negotiated and agreed by the REDD+ country and the Carbon Fund Participants as part of the ERPA. To inform ERPA negotiation, a pricing approach is currently being discussed by Carbon Fund Participants. The eventual pricing approach may take into consideration ER Program costs and financial viability, the total volume of ERs to be bought by the Carbon Fund and the amount of funds available to do so,

and Non-carbon benefits generated by the ER Program, among others.

How will the ERs generated be used by the Carbon Fund Participants?

The Carbon Fund will deliver emission reductions to the financial contributors of the fund pro rata their share of funding. The Carbon Fund Participants belong to one of two tranches:

- Restricted: Where ERs will not be used for compliance purposes nor re-sale and will be retired (applies to approximately 90% of ERs generated)
- Unrestricted: Where Participants can use their share of ERs for compliance purposes or re-sold (applies to approximately 10% of ERs generated)

Regardless of the tranche all ERs will be of equal quality and are expected to generate real, measurable emission reductions verified against relevant international standards.

Will the Carbon Fund consider more than the five ER Programs?

At this stage, the Carbon Fund Participants have agreed to maintain a target of about five ER Programs. The final number of ERPAs entered into by the Carbon Fund will depend on the capitalization of the fund, preparation and transaction costs, the number of emission reductions (ERs) expected to be generated by each ER Program, portfolio diversification and the learning value provided by the individual programs.



For additional information, please visit the Carbon Fund online at <http://www.forestcarbonpartnership.org/carbonfund> or email the Facility Management Team at fcfsecretariat@worldbank.org

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