

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

Process Guidelines for the Carbon Fund of the Forest Carbon Partnership Facility

March 9~~20~~, 2012 rev

This note proposes Process Guidelines for the Carbon Fund of the Forest Carbon Partnership Facility. It builds on and clarifies information provided in the Information Memorandum of the FCPF and in document entitled "Operating Arrangements under the Carbon Finance Mechanism: Issues Note", dated February 9, 2011. These Process Guidelines can be expanded and revised from time to time, based on the requirements of the Carbon Fund.

Background

1. The Issues Note on the Operating Arrangements under the Carbon Finance Mechanism (hereinafter referred to as "Issues Note") lays out a process for the creation of emission reductions based on 19 steps ('Emission Reduction Creation Process').¹
2. During the technical discussion held by video conference on September 1-2, 2011, Carbon Fund Participants (CFPs) and observers discussed the submission of ER-PINs as the first step in the Emission Reduction Creation Process.
3. Based on questions raised during this discussion at the second meeting of the Carbon Fund (CF2) in Berlin, the FMT presented the processing steps from ER-PIN to ERPA and requested the Participants to provide guidance on various questions.
4. Since there was insufficient time to discuss all issues during CF2, it was agreed that the FMT would prepare a questionnaire based on the FMT presentation for CFPs and observers to provide written comments.
5. Based on the comments received, this note proposes process guidelines that build on and clarify points 1-14 of the Emission Reduction Creation Process as outlined in Section 2 of the Issues Note. Once these process guidelines have been agreed by the CFPs, in the event of a discrepancy between the agreed process guidelines and the Issues Note, the agreed process guidelines would prevail.
6. Annex 1 to this note presents the integral comments provided by CFPs and observers in their responses to the questionnaire. Where different views have been expressed by Participants, these have been represented as bracketed text in this note.

¹ The Issues Note is available at <http://www.forestcarbonpartnership.org/fcp/node/277>.

Overview of main clarifications compared to the Issues Note

7. The proposed process guidelines follow the Emission Reduction Creation Process in the Issues Note as closely as possible, while clarifying some of the language and condensing steps where possible.
8. The main clarification involves the purpose of the ER-PIN and the ER Program Document. The purpose of the ER Program Document, although already referred to in the Issues Note, has been clarified and it is proposed that:
 - i. The ER-PIN is the first document to be presented to the Carbon Fund and is the basis for the inclusion in the program pipeline; and
 - ii. The submission of the ER Program Document is considered as the formal submission of the ER Program to the Carbon Fund and the ER Program Document, together with other related documents and requirements, is the basis for the final decision of the CFPs about the inclusion of the ER Program in the program portfolio of a Tranche of the Carbon Fund, potentially with a view to entering into ERPA negotiations in the future.
9. Further details on the comments received and the resulting changes are provided in Annex 1 to this note.

Emission Reduction Creation (the various steps are not necessarily sequential)

ER-PIN presentation

1. ER Programs shall be proposed from FCPF REDD Country Participants that have signed their Readiness Preparation Grant Agreement, using the ER Program Idea Note ('ER-PIN') template. ER-PINs can be presented [at any time] [during predefined 'windows'] by a REDD Country Participant (through its authorized representative, e.g., its national REDD+ committee) [or by another entity authorized to propose the ER Program on behalf of the REDD Country Participant].

ER-PIN review

2. The FMT verifies that the proposed ER Program meets the following requirements:
 - i. The ER-PIN template has been duly completed;
 - ii. The entity proposing the ER Program is from a FCPF REDD Country Participant and authorized to propose the ER Program. If an ER Program is proposed by another entity than

the national government, the FMT verifies that the proposing entity is authorized by the national government;

- iii. The proposed ER Program, based on the information provided in the ER-PIN, has the potential to meet the ER Program selection criteria described in Section 3 (Types of Emission Reductions Programs) of the Issues Note, or as determined by the Carbon Fund Participants;
- iv. [The information provided in the ER-PIN is consistent with the information provided in the Readiness Preparation Proposal ('R-PP') and readiness progress reports of the REDD Country Participant].

3. [The Trustee of the Carbon Fund liaises with the REDD Country Participant or the authorized entity, as applicable, to clarify any issues and provide informal feedback on the proposed ER Program.]

4. If the proposed ER Program meets the requirements listed in paragraph 2 above [and the Carbon Fund has acquired right of first refusal], the Trustee of the Carbon Fund ('Trustee') posts the ER-PIN on the FCPF website and forwards it to the Carbon Fund Participants.

Inclusion in the ER Program pipeline

5. Based on the FMT review of the ER-PIN and other relevant comments received, the CFPs in each Tranche shall [, during predefined 'windows',] decide their interest in a possible inclusion of the proposed ER Program into their respective ER Program pipeline. [If the CFPs of a Tranche have decided that they are interested in ~~the a~~-possible inclusion of the proposed ER Program in their program pipeline, the CFPs in that Tranche allocate a budget to support the REDD Country Participant or its authorized entity and the Trustee in the preparation of [an ER Program Document that shall be the basis for] the carbon finance transaction]. The CFPs may request the FMT to establish an Ad Hoc Technical Advisory Panel (TAP) to assist them in reviewing a proposed ER Program.

6. [The REDD Country Participant's authorized representative issues a Letter of Approval for the proposed ER Program in accordance with national procedures. [The Letter of Approval shall confirm that:

- i. The REDD Country Participant endorses the proposed ER Program and its consideration for inclusion in the FCPF Carbon Fund;
- ii. In the event that the ER Program is proposed by another entity than the national government, the entity that is proposing the ER Program is authorized.]]

7. The Trustee and the REDD Country Participant's authorized representative sign a Letter of Intent specifying the terms and procedure under which the parties to the Letter of Intent intend to negotiate, for a certain time period on the basis of exclusivity, a possible sale and purchase of certain ER volumes to be generated under the ER Program.

8. [The CFPs or CFPs of a specific Tranche allocate a budget to support the REDD Country Participant or its authorized entity and the Trustee in the preparation of an ER Program Document].

Preparation

9. The Trustee formally starts its preparation of the proposed ER Program as required by the applicable Operational Policies and Procedures, including on environmental and social aspects, and in accordance with the standard internal procedures. The Trustee also advises the REDD Country Participant or authorized entity that submitted the ER Program proposal on ways to improve the quality of the proposed ER Program during design and/or implementation, as appropriate.

ER Program Document submission

10. The REDD Country Participant or its authorized entity continues to develop the ER Program, based on inputs received from various parties, as appropriate, and submits the ER Program to the Carbon Fund [by sending its ER Program Document to the FMT].

11. The FCPF Participants Committee (possibly using the assistance of a TAP) endorses the Readiness Package from the REDD+ Country Participant that is hosting the ER Program.²

12. The CFPs may request the FMT or an Ad Hoc Technical Advisory Panel (TAP) to assist them in reviewing the ER Program Document [to assess inter alia:

- i. Consistency of the ER Program with the selection criteria described in section 3 (Types of Emission Reductions Programs) of the Issues Note on the Operating Arrangements under the Carbon Finance Mechanism, or as determined by the Carbon Fund Participants;
- ii. Consistency of the ER Program with the Carbon Fund methodological framework;
- iii. Feasibility/risk assessment of the ER Program, including its costs and its performance;
- iv. Detailed calculation of emission reductions and detailed monitoring plan;
- v. ER Program timeline.]

13. Based on the FCPF Participants Committee's endorsement of the country's Readiness Package, the final ER Program Document and other relevant information [(which may include inter alia additional financial documents (business model), legal documents clarifying carbon rights and certifying the transfer of carbon credits/rights from the relevant entity to the Carbon Fund)], the CFPs of a Tranche ~~shall decide whether to proceed to negotiating an ERPA for on the inclusion of~~ the proposed ER Program into their ER Program portfolio.

² The PC is currently defining the modalities of such endorsement based on an assessment of the country's progress towards REDD+ readiness.

ERPA negotiation

14. Based on the Pricing/Valuation Approach and the General Conditions for ERPAs, as endorsed by the FCPF Participants Committee, the Trustee drafts an ERPA for the included ER Program, which is sent to the relevant REDD Country Participant and/or authorized entity and the relevant CFPs of a Tranche. To the extent possible, a Tranche will only commit to contract and pay for a fraction of the ER potential of the included ER Program, leaving room for other interested entities to participate in one or several separate transactions. This (these) separate transaction(s) could include Carbon Fund Participants from either Tranche looking to negotiate an additional, separate ERPA.

15. The REDD Country Participant or its authorized entity and the Carbon Fund or the relevant Tranche of the Carbon Fund come to an agreement on the terms of the ERPA. In the ERPA negotiation process, the Carbon Fund or the relevant Tranche of the Carbon Fund may choose to select one or more CFP representatives to help negotiate the terms of the ERPA while the Trustee would help facilitate such negotiations.

ERPA signature and inclusion in portfolio

16. The REDD Country Participant or its authorized entity and the Trustee of the relevant Tranche of the Carbon Fund sign the ERPA.

17. The availability of Carbon Fund documents as mentioned in all the steps above is determined in accordance with the World Bank's Access to Information Policy.

Annex 1

Compilation of views expressed on the different steps and questions in the questionnaire send out after CF2

1. This Annex provides an overview of the views expressed on the different steps and questions in the questionnaire send out after CF2. The steps here represent the way the emission reduction creation process was presented during CF2 and do not necessarily follow the process as presented in this note.
2. The last column of each table ('Where views are reflected in proposed process guidelines') refers to the paragraph numbering used in the main section of this note.

Step 1. A REDD Country Participant (through its authorized representative, e.g., its national REDD+ committee or responsible institution) submits an ER Program to the FMT, using the ER Program Idea Note (ER-PIN) template

3. The question was raised if the Carbon Fund will consider ER-PINs in batches (i.e submission though (predefined) windows) or one by one as they are submitted. For this it should considered how the Fund's portfolio can best be managed in terms of diversity to create learning value and manage risks:
 - i. Submission of ER-PINs in 'windows' to be able to compare proposals;
 - ii. ER-PIN is allowed to be submitted whenever the grant agreement has been signed and the country is ready to submit. In this case, it is acceptable for countries to submit similar ER Programs or are there suggestions about diversity required in the portfolio.
4. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	Prefer to review ER-PINs in batches - allows for comparison and more efficient (including in using TAP). Useful for Carbon Fund meetings to continue to have presentations from REDD country participants on early ideas for ER programs. This helps to facilitate learning and could be helpful to inform decisions around issues such as Carbon Fund business processes.	Step 1 has two options were ER-PINs can be submitted [at any time] or [during predefined 'windows']. Related to this, step 5 has an option where the Fund Participants decide their interest [in pre-defined 'windows']. Comment from FOE, CIEL and Global Witness on link
CDC Climat	In principle, they should be examined one by one in order to avoid delays. However, the fund participants could decide to wait and examine several ER-PINs at the same time if it is expected that there will be a short period of time between their respective submission	
Costa Rica	Las revisiones deberian ser uno a uno, ya que las condiciones	

Entity	View expressed	Where views are reflected in proposed process guidelines
	<p>de los países son muy diferentes. Es importante crear experiencia que faciliten el camino a otros países, para esto es importante un portafolio diversificado, estas propuestas no son comparables, aunque se puede establecer un standard de calidad del PIN.</p> <p>Deberia al menos estar firmado el grant agreement y tener un plan de trabajo de SESA establecido. Además, se debe saber cual seria la base para diversificar el portafolio: Nacional/subnacional, pueblos indígenas, iniciativas privadas, comunidades locales, etc.</p>	<p>with readiness process has been included as optional requirement in step 2 iv</p>
<p>FOE, CIEL and Global Witness</p>	<p>The CF should review ER-PINS in batches and seek diversity to maximize learning. Submissions should be able to demonstrate strong links to readiness activities and an emerging national REDD strategy, and this should be a criteria for ER-PIN selection by CF Tranches. Countries should therefore be advised to wait until sufficient progress has been made in developing a REDD strategy before submitting an ER-PIN. (Please also see additional comments regarding the sequencing of ER-PIN submission)</p>	
<p>Germany</p>	<p>What we would encourage is:</p> <ul style="list-style-type: none"> - Early proposals but entry criteria that ensure that only countries with a good chance to get their R-Package endorsed hand in proposals – ambitious ER-PIN Template - More proposals than CF can absorb (to be able to “choose”), but not more proposals than the CF can assess at appropriate costs - A procedure that avoids “rushed” proposals and doesn’t set incentives to prepare ER-PINs as quick as possible – would be an argument for “windows” <p>Maybe a way to go is that ER-PINs can be presented at any time and all received ER-PINs that comply with all formal criteria (step 2) are put on the FCPF website. However, the ER-PINs are only reviewed by CF participants (step 5) at 3-4 predetermined dates in batches, e.g. December 2012,</p>	

Entity	View expressed	Where views are reflected in proposed process guidelines
	<p>December 2013, December 2014 and December 2015.</p> <p>Ensure diversity by allowing only one ER-PIN per country per 'window'.</p>	
Norway	<p>- We support having windows to be able to compare submissions. This should be set times of the year, e.g., three times of year, with a good lead time before discussion among CF Participants. If only one submits, this should still be considered.</p> <p>- While diversity and learning value should be promoted by the fund we do not see this as a strict requirement. We believe country circumstances will necessarily differ, and that no pre-screening of 'diversity' is needed before discussions in the CF.</p> <p>- We support early submissions from countries that have progressed with readiness, and believe signature of a grant agreement to be a reasonable cut-off. That being said, we would expect ER programs to link clearly to the RPP and the emerging national REDD+ strategy/framework, and countries should be advised not to submit until they can demonstrate this.</p>	
Private Sector	Support batches approach	

Step 2. The FMT verifies that the proposed ER Program meets the following requirements:

- a. The ER-PIN template has been duly completed;**
- b. The entity submitting the ER Program is from an FCPF REDD Country Participant and authorized to submit the ER Program. If an ER Program is submitted by another entity than the national government, the FMT verifies that the submitting entity is authorized by the national government;**
- c. The proposed ER Program meets the ER Program selection criteria described in Section on Types of Emission Reductions Programs , or as determined by the Carbon Fund Participants.**

5. The question was raised that if one of the requirements is that the entity submitting the ER Program is from an FCPF REDD Country Participant and authorized to submit the ER Program, how will the FMT verify this requirement if the ER-PIN is not submitted by the FCPF REDD+ focal point?

6. It was suggested that a REDD Country Participant could issue a formal letter of approval for any ER-Program, including authorization of the submitting entity. However if this was the case, it would need to be clarified:

- i. Who should issue the Letter of Approval (for example the agency authorized for this in the national REDD+ management arrangement);
- ii. When such a letter should be submitted: together with the submission of the ER-PIN or at a later stage (for example at the time a Letter of Intent is signed).

7. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	<p>Require letter of authorization at the time the ER-PIN is submitted (avoids potential contractual challenges down the track and requires at least some national government involvement/consultation from the outset, which in itself is a learning opportunity).</p> <p>Letter of Approval should come from (at minimum) the national office delegated responsibility for REDD+ by the executive government (or most appropriate on case by case basis).</p> <p>Suggest another requirement is added – the FMT verifies that the REDD country participant has a signed R-PP grant agreement in place (this ensures WB due diligence for the R-PP is completed).</p>	<p>Step 1 includes an option where an ER-PIN can be submitted [by another entity authorized to propose the ER Program on behalf of the REDD Country Participant]. In step 2 ii, the FMT performs a first check to confirm that this is the case. In step 6 there is an option that a letter of approval is issued before a Letter of Intent can be signed. Step 7 contains the option of defining the required content of the Letter.</p>
CDC Climat	<ul style="list-style-type: none"> • Yes, there should be a formal letter • The letter should be issued by the focal point for REDD • The letter could be issued at a later stage, but no later than step 4 	
Costa Rica	<p>El R-program a someter debe ser parte de ER-PIN final aprobado, aunque deberá ser presentado luego que el R-Program sea aprobado y además contar con una carta de aprobación del ente oficial designado por el Gobierno.</p>	
FOE, CIEL and Global Witness	<p>To answer this question at the country or jurisdictional level, REDD Country Participants will need clarity on tenure and rights arrangements. All relevant rights holders must be involved in the process of submitting an ER-PIN and their rights, including their right to Free, Prior, Informed, Consent (FPIC), fully respected.</p> <p>If this step is taking place before the evaluation of the R-</p>	

Entity	View expressed	Where views are reflected in proposed process guidelines
	Package, it may be difficult to ascertain who has rights to enter in to ERPA or submit an ER-PIN.	
Germany	<p>Yes, we would support the requirement of a formal letter of approval to be presented at ER-PIN submission, issued by the national FCPF REDD+ Focal Point.</p> <p>Question: What happens if the FMT decides that the ER-PIN does not meet the selection criteria? Will there be a formal rejection with stated reasons? Will the Guidance on the Methodological Approach currently elaborated by the PC Working Group also be included as selection criteria and if so, should ER-PINs only be submitted after this Guidance has been approved by the PC?</p>	
Norway	<ul style="list-style-type: none"> • Yes. This approval should refer to the submission of a proposed program, not an approval to enter into the ERPA itself. There may be a need for such a second approval once the details of the ER Program are clear, e.g. with regards to ‘nesting’/accounting, link to national strategy, consultations, national benefit sharing and the right to enter into an ERPA. • This could be the agency authorized under the national REDD+ Management arrangement, or the FCPF focal point. • We are uncertain whether a letter of intent will be needed. Perhaps an approval from the carbon fund to allocate budgets for WB due diligence will do? A Lol would need to include strong contingencies on elements to be completed before ERPA, such as consultations and buy-in from relevant stakeholders and the national government if applicable 	
Private Sector	<ul style="list-style-type: none"> • Submission should be by REDD Focal Point for a country or by an entity with clear legal authorisation • Clarity required regarding the FMT completeness check. If the Fund adopts a batches approach, it would be better to use this as a preliminary vetting step some months before final deadline for batch submission 	

Step 3: The FMT liaises with the REDD Country Participant to clarify any issues and obtain a commitment giving the Carbon Fund right of first refusal over the ER Program or a part of the Program’s ERs for a given period of time

8. The question was raised if right of first refusal is required at this stage of the process or if the right of first refusal can be waived and /or combined with the Letter of Authorization.

9. It was clarified that a right for first refusal implies that the REDD Country Participant / authorized entity can negotiate with other interested buyers. If they get an offer from other buyers, they would need to offer the ERs first to the Carbon Fund at that same price. This is different from an exclusivity period in which the REDD Country Participant / authorized entity is required to negotiate with the Trustee an ERPA on the basis of exclusivity for a certain time period. In step 8 of the process, the Letter of Intent (LoI) could contain an exclusivity period which can potentially be followed by a period with right of first refusal. However there seem to be limited benefits to having right of first refusal in this step. Therefore the Trustee suggests to waive this provision for all ER Programs at this step

10. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	<p>Exclusivity shouldn't be applied at this point as this potentially undermines market function. Right of first refusal would be sufficient to protect the initial procedural investment, however, this may deter submissions from projects with higher potential for return on investment, and is not essential at this stage.</p> <p>No reason to object to removal of both first right of refusal and exclusivity period at this point.</p>	<p>Step 4 contains the option for the Carbon Fund to require right of first refusal. Step 7 defines the content of the Letter of Intent where the FMT proposes the LoI should include an exclusivity period</p>
CDC Climat	<p>Given that the ER-PINs will be posted on the FCPF website, it is in our view important that we get at least a right of first refusal for the volumes that the FCPF would consider buying (to be defined case by case), and that these volumes are senior volumes. Otherwise, other market actors could just check the FCPF website for new programs and try to buy the credits before the FCPF.</p> <p>If the right of first refusal is exercised, then an exclusivity period should start immediately.</p>	
Costa Rica	<p>La mejor opcion es que si se tiene una mejor oferta demostrada, el fondo de carbono pueda igualarla como primera opción.</p>	
FOE, CIEL and Global Witness		
Germany	<p>We would support the proposal to waive right of first refusal.</p>	
Norway	<p>Agree that first right of refusal is not necessary and indeed</p>	

Entity	View expressed	Where views are reflected in proposed process guidelines
	not appropriate. It would require very mature programs, with full buy-in from stakeholders, which may not be realistic before a draft ER PIN is formulated and assessed.	
Private Sector		

Step 4: If the proposed ER Program meets the requirements listed in step 2 above and the Carbon Fund has acquired right of first refusal, the FMT submits the ER-PIN to the Carbon Fund Participants and posts it on the FCPF website

11. The process foresees posting of the ER-PIN. If any comments are received, the FMT would compile these comments and share them with the Fund Participants.

12. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	No comment	No changes made, the posting of the ER-PIN is included in step 4 and if relevant can be taken into account by the Fund Participants in step 5 when they decide their interest in the proposed ER Program
CDC Climat	No comment	
Costa Rica	Las ofertas deben ser demostradas y registradas, en el registro que cada país debe lleva. Fondo de Carbono también debe llevar un registro alimentado por los países.	
FOE, CIEL and Global Witness	We agree with this approach and note that public comments on ER-PINs are a source of useful information to aid CF Participants in assessing the quality and risks of a proposal.	
Germany	ok	
Norway	Agree that ER-PIN should be posted online.	
Private Sector		

Step 5: The Carbon Fund Participants may request the FMT to establish an Ad Hoc Technical Advisory Panel (TAP) to assist them in reviewing the ER-PIN

13. The question was raised that if a TAP would be established, which role is envisioned for TAP?

- i. Ensure consistency of ER-PIN with the R-PP and readiness progress;

- ii. Provide feasibility/risk assessment of the ER-Program and its performance;
- iii. Independent review of specific issues/aspects of the proposed ER-Program as requested by the Carbon Fund Participants;
- iv. Other?

14. Is a TAP review required for each ER-PIN submitted?

15. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	<p>Standard rule should be for a TAP review of each ER-PIN, however, capacity should exist for this to be waived on a case-by-case basis. Waiver of this rule may potentially be considered in the event that a review has already been conducted by a sufficiently credible and independent body (such as a previous TAP) and there has been no change in circumstance.</p> <p>An agreed set of standards for the TAP review should be required to aid comparison of applications on even terms and anticipation of budgetary implications. Consider capacity and/or necessity to assess at a level above agreed standards on a case-by-case basis where the Fund deems appropriate. Providing the budgetary implications are not too great, ad hoc TAPs should be established.</p>	<p>The proposed process guidelines try to clarify the involvement of the FMT and the Tap as follows:</p> <ul style="list-style-type: none"> • FMT reviews the ER-PIN (step 2) and optionally provides feedback at this stage (step 3) • CF participants may request the establishment of a TAP for PIN review but on case-by-case basis (step 5) • The FMT and/or TAP review the ER program Document to ensure the program design meets the requirements of the Carbon Fund (step 12)
CDC Climat	<p>It is not clear for us what the respective roles of FMT and TAP would be. We think that part of the due diligence by FMT (eg financial aspects, overall quality of the program) should take place before, or in parallel with, the work of the TAP.</p> <p>We think that the Fund participants should decide on a case by case basis when a TAP would be required.</p> <p>The consistency of ER-PIN with the R-PP and readiness progress seems to us to belong to the due diligence process. The other items suggested could indeed be part of the TAP's role.</p> <p>The TAP review would in our view be necessary probably at least for the few first ER-PINs presented. For later submissions, it would probably depend on how different the new ER-PINs</p>	

Entity	View expressed	Where views are reflected in proposed process guidelines
	<p>are from the ones that have already been examined.</p> <p>Finally, it is important for us that the TAP budget is capped when a decision is taken to include a TAP review.</p>	
Costa Rica	<p>Debe haber un equipo basico que apoye a los paises a mejorar sus programas, sin embargo las revisions de los ER-PIN deben tener su propia conformacion para atender las particularidades de los países.</p>	
FOE, CIEL and Global Witness	<p>A TAP review using a standardized approach should be required for each ER-PIN considered by the CF Participants, and there should be general guidance on the scope and role of the TAP review. The scope of the review should assess the quality of the information in the ER-PIN and its consistency with methodological guidelines established by the CF, including the status of safeguards implementation in addition to the functions mentioned here.</p> <p>It is not yet clear if the information provided in the ER-PIN is sufficient to make a valuable assessment, particularly with regard to the provisions in the Cancun decisions.</p>	
Germany	<p>Maybe introduce an additional step Pre-selection: It is key to ensure that only ER-PINs are dealt with by TAPs that have a real chance to be selected by the CF to keep costs low. One possibility could be the following procedure (but maybe the FMT could come up with another approach):</p> <p>Among all presented ER-PINs, an ER-PIN is only further “processed” at the deadline if its further discussion is proposed by a majority of Carbon Fund participants. If an ER-PIN does not enter this stage, it can be revised by the country and will enter the batch at the next deadline.</p> <p>Selection criteria for CF participants could be:</p> <ul style="list-style-type: none"> - Readiness Progress (positive Mid-Term Report, if not yet available DP’s informal assessment) - Diversity (regional, conceptual etc.) - Quick initial assessment of key features of all received ER-PINs by a TAP or the FMT. <p>In-depth assessment only for ER-PINs that are selected into the second stage (i.e. backed by the majority of CF participants). Every ER-PIN selected into the 2nd stage will be assessed by a TAP that ensures consistency of ER-PIN with the R-PP and readiness progress; provides feasibility/risk assessment of the</p>	

Entity	View expressed	Where views are reflected in proposed process guidelines
	ER-Program, its costs and its performance; may provide an independent review of specific issues/aspects of the proposed ER-Program if requested by the Carbon Fund Participants.	
Norway	All ER-PINs should be assessed by a TAP, with general guidance. In addition, the CF may request a specific issue to be assessed.	
Private Sector	Note the likely inertia associated with the LoI signing. Is the ER-PIN enough to ground a TAP review. How to give guidance to ER-PIN applicants of likely detail of TAP diligence (if extensive). If TAP review is light because LoI is seen as something that can be terminated for lack of progress etc. then what further diligence will the CF participants have access to	

Step 6: The Tranche Participants make their decisions regarding inclusion of the proposed ER Program into their portfolio, taking into account the TAP’s ER-PIN review and other relevant comments;

Step 7: If the ER Program is included in the portfolio of either Tranche, the Participants in that Tranche approve a budget allocation for the preparation of a carbon finance transaction based on the ER Program

16. The FMT suggested to combine step 6 and step 7 so that inclusion means budget allocation to the country and the Bank, and authorization to Trustee to sign a Letter of Intent.

17. For budget allocation, the FMT suggested that budget allocation for the World Bank implemented activities (including World Bank due diligence and possible TAP or independent reviews) would be based on actual costs (with reporting every 6 months on progress and expenditures) while any allocation to the country/Program entity for program development (e.g., preparation of further documentation, stakeholder consultations etc.) could either be a flat budget allocation OR flexible based on country / size / complexity of the ER Program.

18. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	Agree to combining steps Suggest program development costs flexible based on complexity and size of ER program.	The proposed process guidelines suggest the following:
CDC	We don’t understand why there would be a budget allocation	

Entity	View expressed	Where views are reflected in proposed process guidelines
Climat	<p>to the country. Would that be part of the shared costs?</p> <p>We wouldn't object to combining step 6 and 7.</p> <p>Budget allocation based on actual costs is fine for us upon the following conditions:</p> <ul style="list-style-type: none"> - An estimate of the costs is presented to fund participants beforehand - a cap is defined at the beginning, and the Fund participant's approval is required if budget is needed above that cap. <p>We suggest allocating the budget by tranches.</p>	<ul style="list-style-type: none"> • The ER-PIN is presented first and is the basis for the inclusion in the program pipeline (step 5) • The ER Program Document is submitted later (step 10) and is the basis for the final decision about inclusion of the ER Program in the portfolio(step 13) and the ERPA negotiation (together with other processes such as the Readiness Package assessment by the PC) <p>It is proposed that budget would be made available to the REDD country or entity that presented the ER-PIN to develop the ER Program Document. There are two options for making this budget available, either based on the CF decision to include the Program in the pipeline (step 5) or after a Letter of Intent is signed (step</p>
Costa Rica	De acuerdo	
FOE, CIEL and Global Witness	<p>Steps 6 – 8 represent an important decision point because a budget will be allocated and a letter of intent signed. We recommend that countries should demonstrate adequate progress with readiness activities at this stage to ensure that ER programs are consistent and provide applicable learning value. The Charter requires that an R-Package is endorsed before an ER program is submitted for consideration by the CF Participants. We continue to question whether the order of the steps proposed here is consistent with the spirit of the Charter.</p> <p>We also note that budget allocation relates to the specific responsibilities and expectations of the parties involved. Therefore, it would seem prudent to fully understand the role of the TAP and any further evaluation processes before deciding on the budget allocation approach. It does however seem prudent to allocate budget for actual costs, especially in such a learning environment.</p>	
Germany	<p>Combination OK.</p> <p>Flexible budget allocation, decision to include an “expensive” ER Program has been taken before (step 6), based on cost estimates from TAP.</p>	
Norway	<p>Agreed, if an LOI is agreed to be necessary. Agree that budget allocation and inclusion in portfolio should happen simultaneously, although legal agreement may not be needed</p>	

Entity	View expressed	Where views are reflected in proposed process guidelines
	until ERPA stage. Happy to hear the views of FMT and other participants on that.	8). This will be separate from a budget for the Trustee for its activities, including the start of the due diligence process (step 9)
Private Sector	To what extent is it intended that ER-PIN applicants will have support from budget for further development of ER Program to meet questions / gaps identified by CF/ TAP / FMT?	

Step 8: The Trustee sends a Letter of Intent notifying the submitting country of the Tranche Participants' intention to consider the ER Program or a part of the Program's ERs for a potential ERPA with the Carbon Fund

19. The question was raised what should be covered by the Letter of Intent?

20. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	How long does exclusivity period last?	Step 7 contains a description of the elements of the Letter of Intent and proposes an exclusivity period (without specifying how long this period could be)
CDC Climat	<p>Signing a binding agreement presupposes a clearly defined investment policy (including prices)</p> <p>In our view, the LoI should include:</p> <ul style="list-style-type: none"> - confidentiality clauses (including for communication to the outside) - a calendar - volumes and period over which these volumes would be delivered - price indications (the price negotiation could therefore start at the LoI phase) <p>The exclusivity clause should be of at least six months.</p> <p>What costs would be included in the cost recovery in case of</p>	

Entity	View expressed	Where views are reflected in proposed process guidelines
	early termination?	
Costa Rica	<p>Es importante considerar que cuando esta de por medio otra entidad, los gobiernos deben cumplir con los principios de la Ley de Administración pública, y para esto debe al menos hacer un concurso, a fin de autorizar una entidad y esto debe ser antes del ERPA, pero si no hay ERPA no hay seguridad de Recursos, es como el huevo y la gallina.</p> <p>Otra alternativa es que los proyectos de estas otras entidades autorizadas, formen parte del ER-PIN y estén priorizados en La propuesta de Gobierno y así podría escogerse las propuestas por orden de prioridad.</p> <p>El proceso de negociación de un ERPA dependerá de si es con el Gobierno o es privado, pues las leyes de contratación administrativa son diferentes. Yo me pregunto al abrir la posibilidad de proyectos, que pasa si el Gobierno prefiere un programa nacional?? Y como se vera esto ante países que lo harán por proyectos????</p>	
FOE, CIEL and Global Witness	See comment above on sequencing of steps 6 – 9.	
Germany	OK, details to be discussed later this year.	
Norway	The LOI could include all of these elements. The LOI should be very clear about the contingencies, incl that the carbon fund has no obligation to negotiate an ERPA unless all requirements are met.	
Private Sector		

Step 9: The FCPF Participants Committee, based on the information available (Readiness Package and other relevant information such as readiness progress reports and the ER-PIN itself), and possibly using the assistance of a TAP, assesses whether the submitting country has made sufficient progress towards REDD+ Readiness to enter into an ERPA with the Trustee of the Carbon Fund

Step 10: The World Bank performs its due diligence as required by the applicable Operational Policies and Procedures, including on environmental and social aspects, and in accordance with the standard internal procedures. The World Bank also advises the submitting country on ways to improve the quality of the ER Program during design and/or implementation, as appropriate

21. The question was raised if the ER-PIN and the other information mentioned in step 9 is sufficient for the Fund participants to make a decision or is more needed? It was noted that Step 11 mentions the submission of an ER Program document. Such an ER Program document could have a similar function as a Project Design Document (PDD) under the Clean Development Mechanism and contain further information on the implementation of the methodological framework and the ER Program characteristics defined in the Issues Note. Feedback was requested if such a document is considered to be useful and if so what are potential other subjects to be covered in such a document?

22. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	<p>From a pure investment return basis, reduction potential is a vital aspect of any agreement – recommend this due diligence as an essential step.</p> <p>Some assessment needs to be performed – this should probably be done by a WB body or a TAP with expertise based on consistent standards.</p> <p>In some cases, an ER-PIN as reviewed by a TAP may be sufficient to make a decision on ER due diligence. In other cases, a more detailed document and further review may be needed.</p> <p>More detailed discussion warranted on process and criteria on final decision on ER Program.</p>	<p>The proposed process guidelines suggest the following:</p> <ul style="list-style-type: none"> • The ER-PIN is presented first and is the basis for the inclusion in the program pipeline (step 5) • The ER Program Document is submitted later (step 10) and is the basis for the final decision about inclusion of the ER Program in the portfolio(step 13) and the ERPA negotiation (together with other processes such as the Readiness Package assessment by the PC)
CDC Climat	<p>We are wondering why the assessment vs REDD+ Readiness and the due diligence come that late in the process – at least part of these steps could take place before Lol (for example financial aspects, overall quality of the programs).</p> <p>We think there needs to be an emission reduction due diligence. In addition to the ER PIN (updated), we think the following information is needed:</p> <ul style="list-style-type: none"> • Additional financial documents (business model) and confirmations on sources of funding such as proof of loan agreements (if not included in FMT due diligence) • Detailed calculation of emission reductions and detailed monitoring plan • Results of FMT due diligence and of TAP expertise 	

Entity	View expressed	Where views are reflected in proposed process guidelines
	<ul style="list-style-type: none"> • Legal documents clarifying carbon rights and certifying the transfer of carbon credits/rights from the relevant entity to the fund • Proof of land property rights (if not included in due diligence) • If any public or private entity other than the one submitting the program is involved in the program, a commitment letter from this entity and copy of contracts / operation agreements (if applicable) • Project timeline <p>We don't think that providing these documents will entail significant costs.</p> <p>We don't think an ER program document is needed since the ER PIN already contains a lot of information, however if such a document was produced we think that the document should be assessed by the FMT.</p>	<p>The assessment of the ER Program Document is discussed in step 12 with as option a specification of what will be covered in the assessment. This step would cover what was previously referred to as the 'emission reduction due diligence'. Step13 provides optional additional documents to be reviewed together with the ER Program Document and the R-package</p>
Costa Rica	Debe haber un document claro y concreto del ER-Program, que indique el impacto en reducciones dentro del Programa Nacional y la viabilidad de financiamiento..	
FOE, CIEL and Global Witness	<p>Step 9 is a critical stage in the progression and cannot be overlooked. There has been no determination of what constitutes "sufficient progress." While this work is on-going, it merits reflection on the budgetary implications of such an assessment (as does nearly every stage in the process). Again, these eligibility criteria should be clear from the outset.</p> <p>As noted in our comments on Steps 6&7, the Charter states that R-Package should be endorsed prior to submission of an ER program. This should be clearly stated as a separate step in the business cycle.</p> <p>Once a country's R-Package has been endorsed and its ER-PIN accepted into a CF tranche, the Bank's due diligence process should begin along with the elaboration of a full emissions ER Program document. This document should be publically</p>	

Entity	View expressed	Where views are reflected in proposed process guidelines
	<p>available and reviewed by a TAP (preferably the same group that worked on the ER-PIN for continuity and efficiency). A TAP review and public comments from multiple sources may contribute to alleviating asymmetries in negotiations.</p> <p>Additionally, in Step 10, the World Bank must conduct its due diligence to ensure consistency with operational policies and procedures, as well as relevant UNFCCC safeguards and international obligations.</p>	
Germany	<p>What is meant by emission reduction due diligence? In our understanding, an ER-PIN is the document based on which CF participants decide on whether to consider a “deal”. ERP is the document based on which CF participants effectively “make a deal”, thus if the contents differ (e.g. due to due-diligence results, change of government or issues related to R-Package endorsement), an ERP needs to be prepared and the costs for its preparation should be covered by the ER Program costs (step 7). Whether an additional TAP assessment is necessary should be decided on a case-by-case basis.</p>	
Norway	<p>Given that the ER PIN is an early stage idea note, a more comprehensive (and updated) document outlining all relevant elements of the program will likely be needed before a decision is made among CF participants to enter into ERPA negotiations. An updated TAP review may be appropriate at this stage in parallel with CF participants’ internal assessment. (CF participants may want to reconsider this need when the time comes). In addition, the WB should document that its own safeguards are met through relevant appraisal documents.</p>	
Private Sector	<ul style="list-style-type: none"> • Is it intended that World Bank internal due diligence process is also sufficient for CF participants • Agree that there should be a detailed document to support final ERPA decision. Not necessary to have independently validated 	

Step 11: The REDD Country Participant continues to develop the ER Program, based on inputs received from various parties, as appropriate, and submits its final ER Program document to the FMT

Step 12: Based on the Pricing/Valuation Approach and the General Conditions for ERPAs, which will have been adopted by the Participants Committee, the Trustee drafts an ERPA for this particular ER Program, which is sent to the submitting REDD Country Participant and the relevant Tranche Participants. To the extent possible, the Tranche will only commit to paying for a fraction of the ER

potential of the ER Program, leaving room for other interested entities to participate in one or several separate transactions. This (these) separate transaction(s) could include Participants from either Tranche looking to negotiate an additional, separate ERPA

Step 13: The REDD Country Participant and relevant Tranche of the Carbon Fund come to an agreement on the terms of the ERPA

23. The question was raised what can be done by the Trustee to facilitate the ERPA process. Within the Partnership, the Trustee is seeking to play the role of ‘honest broker’ between the buyers and the sellers. Within this context:

- i. How do Participants see the role of the Trustee in the ERPA negotiation and what role will the Fund Participants play themselves (and how should this be organized)
- ii. What can the Trustee do to level the playing field between seller and buyer (mainly to reduce the asymmetry in knowledge and thus capacity to negotiate) e.g.,

24. The following views were received:

Entity	View expressed	Where views are reflected in proposed process guidelines
Australia	Agree with proposed approach; trustee should seek to do as much as possible to ensure a fair negotiation and contract process.	Not specifically addressed in process guidelines
CDC Climat	<p>We think that if any workshops or other initiatives are organized to create a better knowledge about ERPAs, the costs should be included in the shared costs.</p> <p>We are wondering about potential conflict of interests that may arise for the Trustee if they have a mandate both from the buyer and the seller. We would be interested in suggestions from the Trustee to deal with this issue.</p> <p>In our view, the buyer and the seller need to be clearly represented by two distinct entities. Therefore we can imagine two solutions:</p> <ul style="list-style-type: none"> - Having separate teams among the Trustee to defend the buyer and seller interests - Having an external advisors for each party 	
Costa Rica	De acuerdo. Talleres dirigidos a abogados	

Entity	View expressed	Where views are reflected in proposed process guidelines
FOE, CIEL and Global Witness	<p>The legal implications of entering in to an ERPA are significant. It will be necessary for all parties and stakeholders to fully understand roles and responsibilities entered in to through an ERPA. This will require stakeholder outreach , transparency throughout the negotiations, and early and effective participation.</p> <p>Related to step 2, all rights holders who may be impacted by programs developed or supported through the carbon fund must participate in the process. It should go without saying that their rights should be fully respected.</p> <p>Asymmetry is necessarily going to be an issue, due to the likely monopsonistic nature of the transaction. Further, benefits from existing carbon finance schemes have largely been captured by intermediaries, with little to no benefits accruing to communities or the host country. If the Carbon Fund is to demonstrate the potential of REDD in delivering new livelihoods to communities, the Trustee should consider carefully how to ensure benefits reach the community. This will need to be addressed in ERPA negotiations itself as well in capacity building for contract negotiations. We also suggest that the Trustee should endeavor to enhance understanding of the appropriateness of carbon finance transactions for different circumstances.</p>	
Germany	<p>Additional capacity building on ERPA General Terms and negotiation makes sense (workshops and information dissemination). Costs estimates would be helpful.</p> <p>Role of independent third parties needs to be discussed.</p>	
Norway	<p>Workshops and knowledge dissemination about the FCPF may be useful and appropriate, subject to demand.</p> <p>The ER Program Document may outline the responsibilities and mandates to enter into ERPA and go through a validation in-country.</p>	
Private Sector	<p>Workshops etc are ok but not likely to be definitive in supporting a seller. Better approach is to have FMT as facilitator but each side represented and well-advised. Eg Buyer’s rep and Seller’s rep, each with access to independent advice (or ability to refer queries of general market practice to FMT for confirmation)</p>	

Additional comments made

25. The following general comments on the process were received:

Entity	View expressed
Australia	
CDC Climat	The ERPAs should contain suspensive clauses to account for the time differential between ERPA signature and the receipt of all the documents
Costa Rica	
FOE, CIEL and Global Witness	<p>There are several processes ongoing in the Carbon Fund that each have direct bearing on one another. It would be helpful to clarify the timeline. For example, as we have said before, we are concerned about the sequencing of the RPackage assessment and submission/evaluation of ER-PIN. All of the proposed timing options in the Program Cycle appear to involve the ER-PIN being submitted before the R-Package is assessed. However, without having assessed the R-Package, it will be difficult to evaluate the strategic relevance of the proposed emissions reductions program to the drivers identified in the readiness process or, for example, in piloting monitoring systems and governance arrangements under development during the readiness phase. In step 5 on the TAP review of the ER-PIN, the TAP is expected to (1) ensure consistency of ER-PIN with the R-PP and readiness progress; (2) provide feasibility/risk assessment of the ER-Program and its performance; and (3) independent review of specific issues/aspects of the proposed ER-Program as requested by the Carbon Fund Participants. If the R-Package has not been assessed at this stage, it is unclear how program ideas will relate to the effectiveness of any Carbon Fund activities in furthering the objectives laid out in the readiness process.</p> <p>We also note that there needs to be clear criteria for evaluating performance at each stage of the process. The criteria need to be transparent and accessible. In addition, there needs to clear eligibility criteria for inclusion in the Program Cycle, as well as for any emission reductions generated through ER-Programs. For example, it should be clear that programs are not approved until any problems with implementing safeguards are resolved. Similarly, if, during the life of the program, there is a documented violation of safeguards, there should be no eligibility for emission reduction units until that violation is remedied. This is in keeping with the spirit of the Carbon Fund and the definition of Emission Reductions contained in the Carbon Fund Issues Note, as well as with UNFCCC rules that require safeguards to apply in all phases of REDD.</p> <p>Notably, there remains no clear guidance on how supervision will take place. This is a critical aspect of how monitoring and evaluation of performance will take place throughout the life of the program. The World Bank must be responsible for supervision and monitoring of ERPAs after they are approved. World Bank policies and procedures should apply in this context to ensure that programs are continuing to comply with Bank safeguards, as well as UNFCCC safeguards and international obligations. It is important that in assessing monitoring processes, the Safeguards Information Sharing System (SIS) under the UNFCCC should not be considered a replacement for comprehensive national and local</p>

Entity	View expressed
	<p>monitoring. While harmonizing with UNFCCC processes is beneficial, noting that the SIS is a useful component of monitoring, it cannot substitute overall monitoring in the context of national or subnational REDD programs. The approach to supervision also determines the balance of responsibilities, as well as costs, for ensuring compliance. All parties should understand these requirements before entering in a transaction.</p> <p>We also note that the business cycle cannot end at Step 19, because of the unique nature of carbon finance transactions in the land use sector which necessarily require continual monitoring to guard against leakage and impermanence. This needs to be clarified in the business cycle.</p> <p>These programs may also generate more emissions reductions than the Carbon Fund can, or may be interested in purchasing. If the CF is interested in financing large programs, it would be useful to understand how the CF would carry out due diligence and calculate liability for a portion of emissions reductions generated.</p> <p>Finally, the Carbon Fund should specify that ERPAs and draft ERPAs are available to the public.</p>
Germany	
Norway	<p>We note that this process is necessarily linked to important work on methodological guidance and also to some degree to the R-Package discussions. We look forward to see and discuss all these elements, and to work with participants and observers to promote piloting and learning of forest carbon finance that can benefit the wider REDD+ and climate change community.</p>
Private Sector	