

**Forest Carbon Partnership Facility (FCPF)
Carbon Fund
Eleventh Meeting (C11)
Washington, DC, October 6-8, 2014
Chair's Summary**

Dear Carbon Fund Participants and Observers,

I would like to thank Carbon Fund Participants (CFPs), delegations from REDD Country Participants, and Observers from REDD Country Participants, Indigenous Peoples' organizations, non-governmental organizations, the private sector, the Inter-American Development Bank (IDB) and the Forest Investment Program (FIP), who took part in the eleventh meeting of the FCPF Carbon Fund (CF11) on October 6-8, 2014 in Washington, D.C. Please find below the main conclusions from the meeting. All background materials, presentations, resolutions and this summary are available on the FCPF website at <https://www.forestcarbonpartnership.org/CF11>

Setting the stage for ER-PIN Reviews

A key task at CF11 was to review Emission Reductions Program Idea Notes (ER-PINs) for potential selection into the Carbon Fund pipeline. ER-PINs from the following countries had been previously selected into the pipeline: Costa Rica at CF6 in March 2013, the Democratic Republic of Congo, Ghana, Mexico, and Nepal at CF9 in April 2014, and Chile, the Republic of Congo, and Vietnam at CF10 in June 2014.

ER-PIN Presentation and Review

[Guatemala](#), [Indonesia](#), and [Peru](#) presented their ER-PINs, for potential selection into the Carbon Fund pipeline.

CFPs selected ER-PINs from [Guatemala](#) and [Peru](#) into the pipeline, allocated up to \$650,000, respectively, to develop an Emission Reductions Program Document (ER-PD), and authorized the Trustee to negotiate a Letter of Intent (LoI).

CFPs provisionally selected the ER-PIN from [Indonesia](#) into the pipeline, and provisionally allocated up to \$650,000 for development of an ER-PD. The inclusion and allocation are subject to resubmission of a revised ER-PIN in accordance with the respective resolution.

CFPs identified key issues for Guatemala, Indonesia, and Peru to take into consideration during the development of their program ideas into full ER-PDs, which are captured below and will be attached to the LOI that is signed with each Country. Details of the ER-PIN discussions are below.

Peru

CFPs appreciated the ER-PIN presented by Peru, in particular the sound analysis of drivers of deforestation, the ambitious scope of the program, the alignment with other relevant ongoing activities, and integration with national strategies and development plans. CFPs further valued additional information provided on the inclusion of Indigenous Peoples in decision making and management, the emphasis on land use governance, on significant non-carbon benefits, on the spatial scope of the accounting area, and on the updated reference levels. In the further development of the ER Program, CFPs stressed the importance for Peru to give further attention to:

- Further refine the assessment of planned and unplanned degradation in the Amazon region, especially regarding the impacts of logging. Include degradation in the reference level, if necessary.
- Provide complete documentation and elaborate in more detail on all proposed upwards adjustments based on verifiable evidence of accelerated trends beyond those already present in the reference period (refer to Indicator 13.3 of the Methodological Framework).

- Address the complex institutional landscape in the ER-PD and clarify institutional roles for ER Program implementation, including coordination with the FIP and other programs.
- Describe in more detail how Peru plans to ensure the full and effective participation of local communities, including local organizations of Indigenous Peoples and women in the design of the interventions, especially the land titling and land use components.
- Develop a clear design for a Safeguard Information System and describe how it links to existing information systems of the Government of Peru.
- Work with the IDB as the Delivery Partner for Readiness to ensure timely and effective implementation of the Strategic Environmental and Social Assessment (SESA) and Environmental and Social Management Framework (ESMF), with a view towards proper preparation of the safeguards sections of the R-Package.
- Continue to clarify the process by which existing forest carbon projects are harmonized and included into the ER Program, or excluded from carbon accounting as appropriate.

Guatemala

CFPs welcomed Guatemala's ER-PIN, in particular the clarity of the proposal, the strong national commitment, the sound policy environment, the clear legal framework including on carbon rights, the extensive stakeholder engagement, and the clear reference to existing initiatives and institutional structures that the proposal builds on. In the further development of the ER Program and the ER-PD, CFPs stress the importance for Guatemala to give further attention to the following:

- Work closely with the IDB as the Delivery Partner for Readiness to ensure timely and effective implementation of the FCPF Common Approach to Environmental and Social Safeguards (i.e., SESA, ESMF and the Feedback Grievance Redress Mechanism), with a view towards proper preparation of the safeguards sections of the R-Package.
- Inform the Carbon Fund on progress with the legislation process regarding the PROBOSQUES law. In case the law should not be passed, inform the Carbon Fund about related implications for ER Program development.
- Explore how existing participation and consultation platforms can be improved to ensure meaningful participation of Indigenous Peoples, including indigenous women, in ER-Program design and implementation.
- With regards to institutional framework: (i) appoint a single Program Entity, and (ii) provide a more detailed institutional arrangement for MRV.
- Review the land tenure-related challenges faced so far by existing forest programs on which the ER-PIN builds, and explore how the ER Program could innovatively help address related risks. Also, provide additional details on how Indigenous Peoples' access to land and natural resources is respected and secured in the design and implementation of the ER Program.
- Describe the process by which Guatemala will transfer title to ERs to the Carbon Fund and how benefits sharing to individual landholders, local communities and Indigenous Peoples will be ensured.
- Ensure that natural forests are not substituted by plantation forests given the significant carbon enhancement component of the ER Program.
- Describe the existing and proposed mechanisms for managing the risk of forest fire in the program area.
- Continue to clarify the process by which existing forest carbon projects are harmonized and included into the ER Program, or excluded from carbon accounting as appropriate.

Indonesia

CFPs recognize the importance of Indonesia's international leadership on REDD+, its significant efforts to advance REDD+ nationally through policy reforms, political leadership and implementation of activities; and continued efforts to engage all districts in achieving Indonesia's vision of forest conservation and economic growth. CFPs also note the value of the experience and lessons learned Indonesia could provide to the Carbon Fund and other REDD+ stakeholders, given the unique characteristics of the country and its REDD+ strategy.

CFPs appreciated the proposal presented by Indonesia, in particular the comprehensiveness of their national REDD+ strategy and its analysis of drivers, vision of the proposed program, good discussion of barriers to full implementation, use of six forest types to help account for emissions from degradation, and thinking on non-carbon benefits and the related indicators.

In relation to the requirement for Indonesia to address geographical consolidation of the program and accounting area, as specified in [Resolution CFM/11/2014/2](#), CFPs noted that the ideas below are some examples of designs of program and accounting areas that might reflect greater consolidation, though this is not comprehensive:

- Several contiguous districts;
- Multiple districts in two or more contiguous provinces;
- Multiple districts within one province;
- Demonstration of vertical harmonization with provincial/island level spatial plans, and activity monitoring at this level would be encouraged.

CFPs encourage Indonesia to work with the Trustee, and consult with CFPs as useful, to find an approach that reflects both Indonesia's priorities and needs, and is consistent with the Methodological Framework.

Though the Carbon Fund has recommended a more consolidated approach to the accounting area, the CFPs recognize the value of each of the seven districts included in the draft ER-PIN received and note their willingness to help identify mechanisms which may be available to support any district not included in an eventual ER Program, should one be developed. CFPs stand ready to provide other assistance that may be useful to Indonesia in this process.

In addition, Indonesia is encouraged in the revised ER-PIN and, if relevant, in a future ER-PD, to continue to:

- Provide further detail on the respective roles and responsibilities of the Ministry of Forestry and the REDD+ Agency in the management and coordination of the ER Program, and the roles of other ministries including the Ministry of Agriculture, Ministry of Mining and Energy, and BAPPENAS;
- Further elaborate on the emissions factor, and potentially emission reductions estimates for the ER Program;
- Further explain how the approach to buffers is consistent with the Methodological Framework, and how activity data for deforestation and degradation are monitored and benchmarked at national level (in terms of spatially explicit information);
- Explain discrepancies between various data sources regarding the definitions and quantification of natural forests, historical deforestation, and degradation;
- Include more information on how land use and forest governance, including enforcement measures, will be part of the strategy to control deforestation in the relevant jurisdictions;
- Provide more detail on the development of the Feedback and Grievance Redress Mechanism(s).

Portfolio Management

Eleven ER-PINs have been selected (or provisionally selected) into the pipeline as of CF11. This is in line with previous expectations to potentially include 10-12 ER-PINs in the pipeline based on [preliminary portfolio simulations](#) and to eventually select 8-9 ER Programs into the portfolio. The final number of ER Programs in the Carbon Fund portfolio will, however, depend on a number of factors, including estimated volumes of ERs that can be generated by each ER Program.

Consideration of Extending the Term of the FCPF Carbon Fund and Readiness Fund beyond 2020

CFPs discussed the long-term future of the FCPF Carbon Fund and its role as a pilot mechanism for results-based payments for REDD+. More specifically, CFPs discussed whether the [Carbon Fund's current termination date of December 31, 2020](#), should be extended, considering the limited remaining time available for ER Program development and implementation. Discussions were informed by [FMT Note CFM-2014-2](#).

CFPs were generally supportive of an extension of the term of the FCPF Carbon Fund beyond its current termination date of December 31, 2020. Most CFPs mentioned potentially extending up to December 2025 to ensure a reasonable implementation period for ER Programs. Some CFPs also noted that the development of the Green Climate Fund (GCF) and its capacity to initiate REDD+ financing within that timeframe is also relevant for this discussion.

CFPs considered the implications of a potential extension and emphasized the need to balance a potential extension with measures to prevent slippage of ER Program development and implementation. Initial suggestions for such measures include interim deadlines for reaching certain milestones in the ER Program business process.

Some CFPs expressed interest in considering whether the Carbon Fund, under an extension scenario, could support additional ER programs, provided there was additional investment of capital into the Fund.

To provide REDD Countries adequate planning horizons for ER Program development, most CFPs agreed on the importance of a decision on the extension at the next Carbon Fund meeting. CFPs also considered that this would provide sufficient time to take into consideration further feedback from more REDD+ countries.

A small minority of CFPs suggested delaying any extension of the term until after the 21st session of the Conference of the Parties to the UNFCCC in December 2015, in Paris, France, when there may be more signals on REDD+ in the climate negotiations.

Most CFPs were not supportive of an extension of the Readiness Fund at this stage as there is currently no perceived urgency to extend the Readiness Fund as there is in the Carbon Fund, and suggested to revisit the consideration at a later stage. However, CFPs were interested in hearing a wider range of views, particularly from more REDD Countries, and it was proposed that the possibility of extending the term of the Carbon Fund and/or Readiness Fund be raised for initial discussion by the PA at the upcoming meeting in Arusha, Tanzania.

Follow up action:

The FMT will prepare a revised, more detailed note on the decision making process and the implications of the extension. Subsequently, the FMT will proceed to organize further consultations with CFPs via teleconference. A decision on the extension of the term of the FCPF Carbon Fund would be scheduled for CF12.

Draft General Conditions of a future Emission Reductions Payment Agreement (ERPA)

The Trustee provided a brief [update](#) on the roadmap for the endorsement of the ERPA General Conditions, which are scheduled for approval at the 18th Participants Committee meeting (PC18), in November 2014. The ERPA General Conditions are based on the ERPA Term Sheet that was endorsed by the PC at the fourteenth PC meeting ([Resolution PC/14/2013/9](#)).

The Trustee presented the main comments received from FCPF participants on the latest draft ERPA General Conditions and provided its recommended responses. CFPs discussed these and raised additional questions and comments for the FMT to take into account in the final version of the ERPA General Conditions.

The FMT further provided [information about cost allocation options](#) in relation to the ERPA General Conditions.

Follow up action:

The FMT will continue to reach out and engage PC members and other REDD+ countries to address remaining questions prior to PC18. In parallel, CFPs are encouraged to reach out and informally discuss and address questions of REDD+ countries.

The FMT will prepare a note on cost allocation options for consideration at the next Carbon Fund meeting, with the aim of a decision on cost recovery.

Draft ER-PD business process, including technical review

Building on feedback received from CFPs and REDD+ countries over the summer, the FMT presented [suggestions for the process for reviewing ER-PDs, focusing on the technical assessment](#) of proposed ER Programs (refer to [FMT Note CF-2014-3](#) for further background). CFPs converged on the following:

- Technical Advisory Panel (TAP) reviews should go beyond indicating strength and weakness and provide judgment on the ER Program's consistency with the Methodological Framework.
- Results of TAP reviews should preferably be available to CFPs prior to their review and comments on ER-PDs.
- Virtual reviews should be considered as an option as long as transparency of the review process is ensured.
- A TAP calibration workshop would be useful to ensure consistency across ER Program reviews and boost CFPs' confidence in the TAP review.
- TAP review teams should include experts with in-depth country and technical expertise to ensure assessment against national context and circumstances.

Follow up action:

The FMT will reach out to CFPs on the content and process for reviewing ER-PDs and seek feedback for further revisions of the proposed ER-PD business process, and for development of draft Terms of Reference for Ad Hoc Technical Advisory Panels to review future ER-PDs. As part of the further development of the proposed ER-PD business process, more information on the scope of the World Bank's due diligence process would be provided.

If feasible, a decision on the ER-PD business process would be scheduled for CF12.

Linkages between investment funding and performance-based finance, including the Carbon Fund and FIP

On the request of CFPs, [linkages between investment funding and performance-based finance](#), including the FCPF Carbon Fund and Forest Investment Program (FIP), were discussed. To inform the discussion, the FMT presented its current thinking on the linkages across various REDD+ initiatives.

The FIP further provided an update on the ongoing study that was commissioned by the FIP on the same topic.

CFPs noted the large scale of public and private financing needed to incentivize meaningful changes in land use management and forest-related emissions, and the role of climate finance in leveraging the public and private investment finance needed to support such changes.

CFPs generally agreed with the line of thinking that REDD+ financing supports three critical pieces: technical assistance, investments, and Results-Based-Finance, with the emphasis that these pieces are not necessarily distinct phases, and in some cases may compose a structured finance package to support the creation and sustenance of long-term emission reductions.

Some CFPs noted that in an effort to ensure and enhance the cost effectiveness of mitigation actions, double payments for results (including *ex ante* and *ex post* payments for the same results) should be avoided. These CFPs noted that there are many ways of avoiding double payments, including through program design, accounting, and adjustments to reference levels. They suggested that this area be given specific attention during the design of ER Programs.

Some CFPs noted that it is important to keep in view the different objectives for which the various REDD+ initiatives were set up; recalling that the objective of initiatives (such as the FIP) is the creation of an enabling environment. Programs under such REDD+ initiatives are therefore not required to account for mitigation benefits. Further, ER Programs in the Carbon Fund are in piloting phase and credit facilities or other mechanisms to address up-front investment financing needs for REDD+ are not yet readily available, so some degree of flexibility may be warranted when considering such linkages with other mechanisms.

CFPs agreed that no further general guidance papers or input is required from the FMT at this time, but recognized that these linkage-related issues may arise in the future.

Follow up action:

CFPs expect to review any significant multi-lateral or bilateral up-front investments for a specific ER Program on a country/program specific basis.

The FIP is encouraged to continue sharing early results of the ongoing study and to make discussions on this topic at the upcoming FIP Sub-Committee Meeting on November 19 2014 in Washington, DC, accessible to CFPs.

Next meetings

The twelfth Carbon Fund meeting will be held in April 28-30, 2015 in Paris, France. The FMT will advise on further details as soon as possible.

In closing

CF11 marked the end of an exciting series of three sequential Carbon Fund meetings that saw tremendous progress in shaping a diverse pipeline of landscape-level programs that have the potential to generate high-quality and sustainable emission reductions at scale, deliver environmental and community benefits, and generate important lessons and open the space for market mechanisms that support forest conservation.

The competition of countries to present ER-PINs to the Carbon Fund was spurred with the adoption of the Methodological Framework for the Carbon Fund in December 2013. Under current capitalization levels and with eleven ER-PINs selected (or provisionally selected), the pipeline for the Carbon Fund is now considered filled. This marks the beginning of a new period for the Carbon Fund during which focus will shift to the development of full-fledged ER Programs. It will be important to take advantage of the opportunity to learn from countries' experiences in designing large-scale, cross-sectoral, multi-institutional programs that bring public and private sector partners together around forest conservation, sustainable land use and reducing emissions. Ultimately, the success of the Carbon Fund will not be measured merely by the amount of funds channeled through it, but by its ability to innovate and create a space and innovative mechanisms where climate change mitigation and forest conservation becomes politically attractive and economically feasible.

If you have any questions or concerns, please do not hesitate to contact me at dmarsh@tnc.org or the FCPF FMT at fcpfsecretariat@worldbank.org.

Sincerely,
Duncan Marsh
The Nature Conservancy
CF11 Chair