

THE CARBON FUND

OF THE FOREST CARBON PARTNERSHIP FACILITY





ABOUT THE FOREST CARBON PARTNERSHIP FACILITY (FCPF):

The FCPF is a global partnership of governments, businesses, civil society, and Indigenous Peoples focused on reducing emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks in developing countries (activities commonly referred to as REDD+).

The FCPF has two separate but complementary funding mechanisms — the Readiness Fund and the Carbon Fund — to achieve its strategic objectives. About US\$650 million have been raised for the two funds.

- **The Readiness Fund** supports participating countries in the development of REDD+ strategies and policies, reference emission levels, measurement, reporting, and verification systems, and institutional capacity to manage REDD+, including environmental and social safeguards. The Readiness Fund became operational in 2008 and has a capital of about US\$260 million.
- **The Carbon Fund** builds on the progress made in readiness and is designed to pilot performance-based payments for emission reductions from REDD+ programs in a small number of FCPF countries. The Carbon Fund became operational in 2011 and has a capital of about US\$390 million.

The FCPF has grown to 36 developing countries and 18 financial contributors (including developed countries, private sector participants and one non-governmental organization and has six categories of observers, including Indigenous Peoples and civil society).

The Carbon Fund of the Forest Carbon Partnership Facility will pilot payments for verified emission reductions from REDD+ programs. The goal is to provide incentives to reduce emissions while protecting forests, conserving biodiversity, and enhancing the livelihoods of forest-dependent Indigenous Peoples and local communities.

What Will the Carbon Fund Accomplish?

Demonstrate large-scale performance-based payments. To date most REDD+ transactions have occurred in the voluntary market and rely on a project-based approach. The ambition of the Carbon Fund is to test large-scale (i.e., jurisdiction or eco-region) approaches that require a mix of policies and investments, integration with national development strategies, use of innovative financial structures, and multi-stakeholder engagement. Sub-national programs must fit into the National REDD+ Strategy and national accounting system.

Provide early lessons from through piloting a variety of approaches. Programs will be chosen with sufficient diversity to generate learning value. They may involve, for example, policy and legal reforms in land management, improvements in land tenure, establishment of parks and forest reserves, or intensification of agriculture, among others.

Channel incentive payments where they are needed. The Carbon Fund will test benefit-sharing arrangements so that incentives are applied in an effective and equitable manner, and shared with those stakeholders most critical to protecting forests.

Results-Based Finance for REDD+ Can support Climate Change Mitigation

Slowing, halting and reversing deforestation is recognized as critical to reducing global greenhouse gas emissions. In addition, protection of the world's remaining forests can contribute to sustainable development, provide benefits to forest-dependent indigenous peoples and local communities, protect important ecosystems, and conserve critical habitats for endangered species.

The FCPF complements the United Nations Framework Convention on Climate Change (UNFCCC) negotiations on REDD+ by demonstrating how REDD+ can be applied at the country level and by drawing lessons from this early implementation phase.

The Carbon Fund will pilot results-based demonstration activities. Results-based financing provides payments for verified carbon emission reductions and enhancements in forest carbon stocks. Such performance-based payments will play an essential part in valuing forests more while they are standing than when they are cut. ER Programs also will produce non-carbon benefits: for example, they may improve local livelihoods, help to build transparent and effective forest governance structures, make progress on securing land tenure, and enhance or maintain biodiversity and other ecosystem services. The Carbon Fund encourages the design of programs that enhance such non-carbon benefits and contribute to broader sustainable development.



Investors in the Carbon Fund

The Carbon Fund is an innovative example of governments and the private sector working together. The private sector is critical, not only to scale up funding for REDD+ but also to provide management capacity and experience with innovative financial instruments.

Carbon Fund Participants (as of June 2013):

- Australia
- BP Technology Ventures
- Canada
- CDC Climat
- European Commission
- Germany
- Norway
- Switzerland
- The Nature Conservancy
- United Kingdom
- United States

FCPF

PARTICIPANT ASSEMBLY

Elects the Participants Committee (PC), provides general guidance to the PC and takes high-level decisions affecting the Facility (donors, REDD Country Participants, Carbon Fund Participants + Observers)

PARTICIPANT COMMITTEE

Makes decisions on all aspects of the FCPF, including on the Readiness Fund and provides high-level guidance on the Carbon Fund as per the charter. (14 REDD Country Participants, 14 Donors and Carbon Fund Participants + Observers)

CARBON FUND

CARBON FUND PARTICIPANTS

Makes decisions on all core aspects related to the Carbon Fund, including on the selection of ER Programs and on establishing the methodological framework and pricing approach.

READINESS FUND



FAQs

Can countries who are not participants of the FCPF apply to the Carbon Fund?

No, the Carbon Fund is only open to those countries that have prepared a Readiness Preparation Proposal, and have had their Readiness Package (R-Package) endorsed by the PC under the Readiness Fund of the FCPF. However, all countries will be able to benefit from lessons learned through the experiences of the Carbon Fund.

How will ER Programs be selected?

The Carbon Fund Participants will select about five ER Programs using criteria related to the REDD Country's political commitment and readiness progress to date, the scale of the program and potential to generate a large volume of high-quality and sustainable ERs, the technical soundness, stakeholder participation, and non-carbon benefits of the ER Program. Sufficient diversity to generate learning value across the Carbon Fund portfolio will further factor into program selection.

Will the Carbon Fund be consistent with decisions of the UNFCCC?

The Carbon Fund aims to be consistent with evolving UNFCCC decisions on REDD+. It does not intend to pre-empt international negotiations on REDD+, but seeks to provide 'real life' practical insights and knowledge generated from piloting performance-based mechanisms for REDD+ and, through this, to inform ongoing negotiations.

Are there special requirements for national and subnational programs?

The Carbon Fund is designed to test the national strategy and frameworks being developed under readiness. For this reason, ER Programs need to be approved by the appropriate national REDD+ authority and be embedded

in and provide input to the national REDD+ strategy and national monitoring systems. Subnational level programs, including subnational baselines used for measuring performance, are expected to be consistent with, or informed by, the approach being used to establish a national REDD+ framework.

Will the Carbon Fund consider non-carbon benefits?

Yes, the Carbon Fund seeks to provide environmental and social benefits. The choice of ER Programs to finance will take into account the quality of emission reductions generated by each ER Program, including non-carbon benefits.

Will the Carbon Fund apply social and environmental safeguards?

Yes, ER Programs under the Carbon Fund must comply with applicable World Bank operational policies and procedures, including safeguard policies, and will promote and support safeguards included in UNFCCC decisions on REDD+.

How will stakeholders benefit from Carbon Fund payments?

ER Programs will build on systems and strategies established in the Readiness phase, which require transparent, full and effective participation of stakeholders with an emphasis on respect for the knowledge and rights of forest-dependent Indigenous Peoples. How revenues from carbon payments are to be equitably shared is a question for each REDD+ country to address in the context of its Readiness activities. A Benefit Sharing Plan is a requirement of all ER Programs and will provide details on the benefit-sharing process, related distribution criteria and timelines, types of beneficiaries, as well as a description of a relevant grievance redress mechanism.



Does the Carbon Fund provide financing upfront?

The Carbon Fund is set up to provide payments based on performance, i.e., after emission reductions and/or enhancements in forest carbon stocks have been verified. Although the Carbon Fund might provide some advanced payments before verification of emission reductions (on a case by case basis, subject to conditions still to be established) it will not provide financing for investments. In general, Carbon Fund payments will be complementary to financing from other sources, e.g., the government's own budget, World Bank financing, loans or grants from the Forest Investment Program, the Global Environment Facility, bilateral donors, or the private sector.



What happens if emission reductions are not verified?

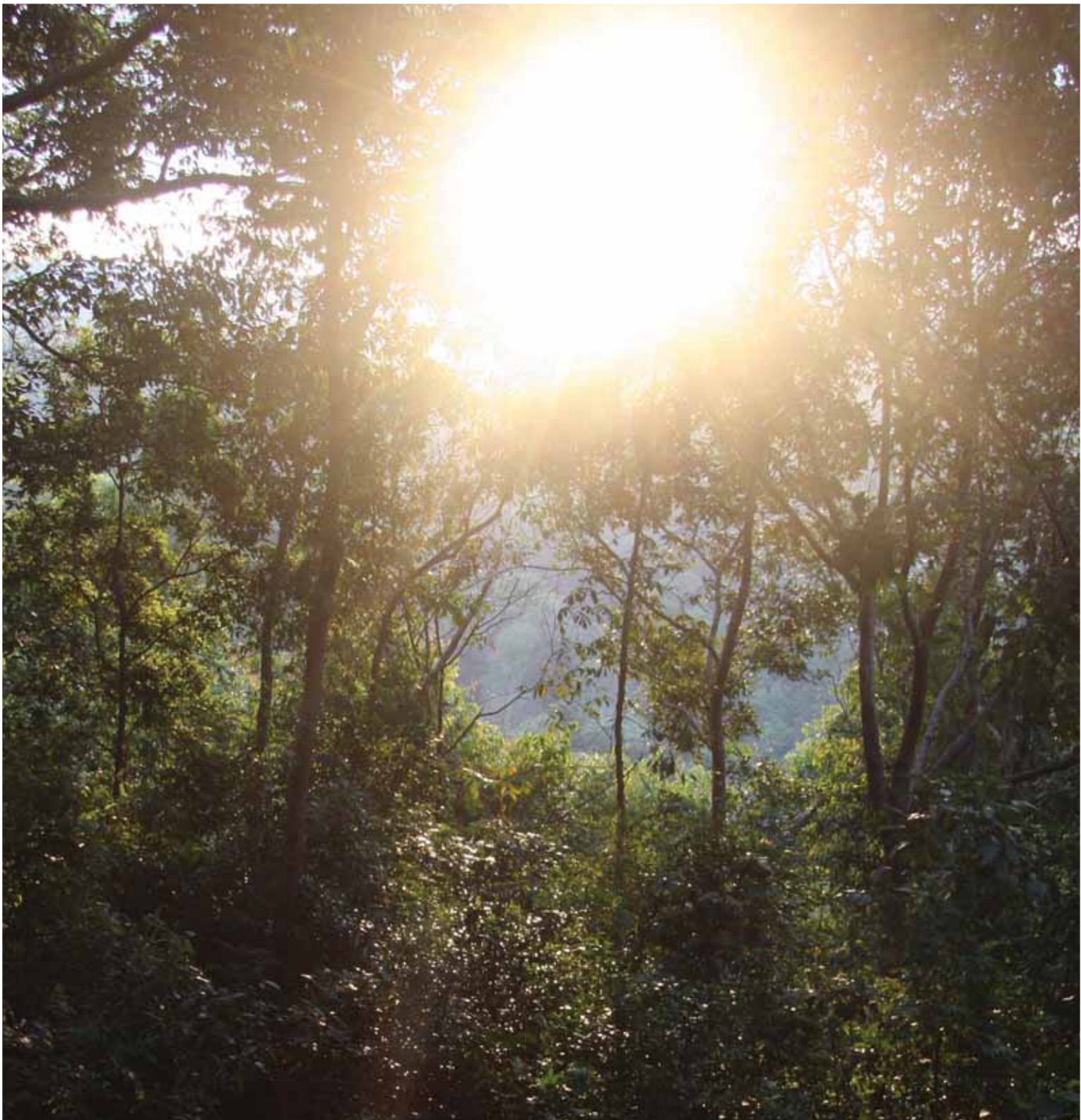
The Carbon Fund will make payments for verified emission reductions. If the verification reveals that all or part of the monitored and reported emission reductions has not taken place, then there is no payment to be made for non-verified emission reductions. If verification is not required under the Emission Reductions Payment Agreement (ERPA) for a given time period, but the understanding is that emission reductions (as monitored and reported) have been achieved, the ERPA may still allow for a payment to be made and to be adjusted later once the emission reductions have been verified.



Does the Carbon Fund operate as a fund or is it developing a market?

The Carbon Fund's goal is to contribute to creating a strong framework for any future payment system for REDD+, including funds or markets, by demonstrating and testing performance-based incentive systems, creating high-quality emission reductions, and providing learning opportunities from testing a variety of ER Programs.





Carbon Finance
AT THE WORLD BANK

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

Photo credits: Rhett A. Butler, Nina Doetinchem, Scott Wallace