

Forest Carbon Partnership Facility (FCPF)
Fourteenth Meeting of the Carbon Fund (CF14)
Paris, France, June 20-22, 2016
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, civil society, the private sector, and multilateral agencies, who took part in the fourteenth meeting of the FCPF Carbon Fund (CF14) on June 20-22, 2016 in Paris, France. I wish to acknowledge the participation of and thank the Honorable Governor Genty Nyobila of Mai Ndombe Province, Democratic Republic of Congo.

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/carbon-fund-fourteenth-meeting-cf14-june-20-22-2016-paris-france>

Progress Update

The Facility Management Team (FMT) of the FCPF provided an [update on progress](#) made since the last meeting in October 2015. With new pledges from Germany for Euro 50 million and the United States for \$4.5 million, Carbon Fund commitments now total over \$755 million. CFPs welcomed the comprehensive progress update that covered *inter alia* progress against interim milestones, updates on ongoing technical assessments, technical guidance developed, broader developments in the World Bank, and upcoming deliverables and decisions.

Setting the stage for ER-PIN and ER-PD selection

The FMT [recalled the two decision points](#) for selecting Emission Reductions programs into the Carbon Fund:

- i. Selection into the pipeline of the Carbon Fund based on an Emission Reductions Program Idea Note (ER-PIN) (concept stage). This leads to the signing of a Letter of Intent (LoI) that confirms the Carbon Fund and country's intention to proceed with development of the program;
- ii. Selection into the portfolio of the Carbon Fund based on the Emission Reductions Program Document (ER-PD) (full proposal). This leads to the negotiation and signing of an Emission Reductions Payment Agreement (ERPA), a contract to pay for ERs generated by the program.

CFPs previously selected [18 ER-PINs](#) and considered the pipeline filled at CF13 (October 2015), with the exception of two countries—Cameroon and Guyana—who were invited to present revised ER-PINs for potential selection at or prior to the fifteenth meeting of the Carbon Fund. As such, Cameroon presented its revised ER-PIN at this meeting.

In addition, the ER-PIN from Indonesia was [provisionally selected into the pipeline at CF11](#) (October 2014). As per the timeline agreed since, Indonesia presented its revised ER-PIN at this meeting to seek CFPs' consent to include the revised ER-PIN in the pipeline.

Finally, a key task at CF14 was to review the first set of ER-PDs, from Costa Rica and the Democratic Republic of Congo (DRC), for potential selection into the portfolio.

Selection of ER-PINs

Cameroon

CFPs **provisionally selected** the **ER-PIN from Cameroon** into the pipeline, and provisionally allocated up to \$650,000 for development of an ER-PD. The inclusion and allocation are subject to satisfying a number of requirements including by resubmission of a revised ER-PIN, as set out in the respective **resolution**.

CFPs appreciated the ER-PIN presented by Cameroon and commended the increased political momentum in the national REDD+ process. CFPs also welcomed the **additional information provided** by Cameroon during CF14 on key issues identified at CF13 as captured in the **CF13 Chair's Summary**, but also noted that this information should have been better captured in the revised ER-PIN.

CFPs also identified key issues for Cameroon to take into consideration during the development of the program idea into an ER-PD, which are captured below and will be attached to the LOI to be signed with Cameroon:

- Review and clarify the justification for the proposed adjustment of the reference level.
- Improve the reference level and assess the significance of forest degradation.
- Further strengthen the mechanisms for cross-sectoral coordination.
- Share the draft report on the analysis of drivers of deforestation and forest degradation in the program area.

Indonesia

CFPs congratulated Indonesia on a strong revised **ER-PIN** and provided their consent for the program to be included in the Carbon Fund pipeline. It was noted that Indonesia **responded** effectively and convincingly to the priority issues identified for the original ER-PIN presented at CF11.

At the same time, CFPs noted that the proposed reference level start date is different from the ER-PIN that was provisionally approved in 2014. In the view of CFPs, the justification for the changed start date does not meet the requirements of the Methodological Framework. The CFPs therefore requested Indonesia to change the start date during ER-PD development, in order to comply with the Methodological Framework including the change to the Methodological Framework related to the end-date for the Reference Period that was adopted at CF14.

Further, CFPs recognized the impact of extreme natural events (including fires) on emissions and proposed that Indonesia suggest a different way of mitigating this risk rather than through a shift of the reference level start date. CFPs expect that the FMT and World Bank will provide technical assistance and guidance to support Indonesia to effectively account for emissions related to fires in the ER-PD, including through the possible use of the buffer mechanism provided as per the Methodological Framework to manage the risk of reversals.

CFPs appreciated the proposed measures to manage the displacement of emissions (leakage) and the master plan for managing climate change as a vehicle for cross-sectoral coordination and ensuring that development plans are aligned with the objectives of East Kalimantan's program. CFPs also welcomed the recent developments to launch a Green Growth compact in East Kalimantan to align stakeholders' efforts to promote low-carbon development, including the private sector.

Selection of ER-PDs

Costa Rica and DRC presented ER-PDs for selection into the Carbon Fund portfolio. ER-PDs were drafted taking into consideration comments from the Technical Advisory Panel (TAP), CFPs, and Observers, as applicable.

Portfolio selection is done on a first come first served basis, while taking into account the quality of the program proposal, selection criteria as considered at ER-PIN selection stage, including consistency of the ER-PD with the Methodological Framework.

CFPs provisionally selected the ER-Programs from Costa Rica and DRC into the Carbon Fund portfolio. ERPA negotiations will proceed subject to completion of the World Bank's due diligence on the programs and fulfillment of conditions as stated in the respective resolutions for Costa Rica and DRC.

Costa Rica

CFPs also encouraged Costa Rica to further develop the following issues under its ER Program and inform the FMT about corresponding developments, if any, to be shared with CFPs and Observers, prior to ERPA signature:

- Revisit the buffer approach presented, taking into account that CFPs reiterated (as noted in their [consolidated comments](#) of December 2015) that they would consider only ERs generated during the term of the ERPA as part of the buffer and contract ER volume.
- Reconsider the percentage of advance payments requested. In this context, CFPs indicated that advanced payments are still under discussion and subject to ERPA negotiations. However, CFPs indicated that the percentage currently proposed is above what they are prepared to accept, assuming they decide to allow for advance payments.
- Advance development of a transaction registry and address potential issues related to double counting.
- Explore mechanisms for increasing the percentage of ERs to be transferred to the Carbon Fund.
- Provide a clarification on the discrepancy in the reference level calculation between the first and second drafts of the ER-PD.

Democratic Republic of Congo

CFPs also encouraged the Democratic Republic of Congo to further develop the following issues under its ER Program and inform the FMT about corresponding developments, if any, to be shared with CFPs and Observers, prior to ERPA signature:

- Institutional capacity for ER Program implementation at subnational level.
- Land tenure arrangements in the ER Program area.
- Synergies of the ER Program under the FCPF Carbon Fund with the Forest Investment Program (FIP) and the Central African Forest Initiative (CAFI).

CFPs also emphasized the importance of (1) further safeguards analysis to address social and environmental risks, including the Feedback and Grievance Redress Mechanism; and (2) further development of the benefit sharing mechanism and disclosure of the Benefit Sharing Plan, at least as an advanced draft, prior to ERPA signature, both in line with the Carbon Fund Business Process and as part of World Bank due diligence.

CFPs appreciated DRC's commitment to apply FPIC as part of ER Program implementation.

Moreover, CFPs recognized the importance of the Forest Code 2002 and the moratorium on the granting of new forest concession titles (referenced in the 'Policies and National REDD+ Investment Programs' section of the ER-PD) for ER Program implementation.

In light of the increase of emissions in the accounting area over the reference period, CFPs highlighted the importance of taking into account any potential new or aggravating drivers in the accounting area, and of adapting the ER Program intervention strategy accordingly, if needed.

CFPs would welcome DRC to continue its work on testing alternative methods to quantify forest degradation with international support.

Portfolio Considerations

The Carbon Fund pipeline now includes a total of 19 ER-PINs, and the portfolio provisionally includes two ER-PDs. CFPs considered strategic [portfolio management](#), including available capital, the term of the Carbon Fund, estimated volume of ERs that could be generated by ER Programs within the term of the fund, and key variables that could affect the eventual volume of ERs, including updates to Reference Levels, ER Program effectiveness, quality of measurement, risk of reversals, share of ERs that would be purchased by the Carbon Fund, and potential pipeline attrition.

CFPs emphasized the importance of taking into account the net emission reductions goal of the Carbon Fund when considering the selection of programs from HFLD countries, as an imbalance of ERs from HFLD countries across the portfolio could present a risk to the net emission reductions goal of the fund.

Carbon Fund Business Process

The FMT [presented](#) updates to the [Process Guidelines for the FCPF Carbon Fund](#) based on lessons learned from the processing of the first two ER Programs. Key revisions relate to the timing of publication of successive versions of the ER-PD during the technical assessment process and the detailed steps of the virtual review and comment period for the advanced draft ER-PD. The [Disclosure Guidance for the Carbon Fund](#), which is an annex to the Process Guidelines, was updated accordingly.

CFPs agreed to the changes made, but urged the FMT to identify options that provide for a longer virtual review period, without lengthening the overall process. CFPs also emphasized the importance of capturing changes in successive versions of the ER-PD in ‘track changes’ mode.

The FMT further proposed [adjustments to the expected timing](#) of the World Bank preparation and due-diligence process vis-à-vis decisions by CFPs to proceed to negotiating ERPAs.

CFPs agreed with the recommendations that:

- The ER-PD is submitted to the CFPs for potential selection into the portfolio prior to World Bank appraisal of the program (and at minimum, after completion of the World Bank concept review stage). Should World Bank due diligence imply any major, substantive changes to program design after CFPs’ selection of the ER-PD, the FMT will communicate this to CFPs to determine appropriate steps.
- It would be at the discretion of the World Bank’s Country Director to decide to proceed with a Decision Meeting prior to or after the CFPs’ decision to proceed to negotiating an ERPA.

Follow-up action:

The FMT will seek to improve the revisions of the Process Guidelines to provide for a longer virtual review period. This could potentially be achieved, for example, by making the draft and advanced draft ER-PD available for review a few weeks prior to the availability of the TAP report, instead of making all three documents available at the same time.

Methodological Framework

The FMT, in their interactions with REDD Countries, identified [three emerging issues](#) related to the interpretation of the Methodological Framework where further clarification was sought from the CFPs.

In the discussion, CFPs recognized that since the Methodological Framework was adopted, signing of ERPAs has been delayed for a number of reasons. Furthermore, the term of the Carbon Fund has since been extended. Under these circumstances, the CFPs recognized that Indicator 11.1 and Indicator 20.2, which provide specific timelines, do not reflect these new circumstances. CFPs therefore decided to adopt a [revised version of the Methodological Framework](#) that updates these timelines, as stated in Resolution [CFM/14/2016/4](#).

In addition, CFPs provided guidance, through [FCPF Guidance document #1](#), on the use of interpolation in relation to the Reference Period of an ER Program. CFPs discussed guidance on the revision of the Reference Level during the term of the ERPA, but no consensus was reached on this topic during the meeting.

In the discussion on ER-PD selection, CFPs noted that more clarification may be needed regarding the assessment of criterion 28 and Indicator 28.1 of the FCPF Carbon Fund Methodological Framework on assessment of land and resource tenure regimes.

ERPA Negotiation Process

The FMT [presented the proposed ERPA negotiation process](#), including the initial negotiation process on the ERPA Term sheet, and the subsequent ERPA drafting and finalization process. The FMT further clarified the roles and responsibilities of CFP Representatives to be self-selected to represent CFPs in their respective tranches of the Carbon Fund during the negotiations. CFPs agreed to the ERPA negotiation process as presented.

Budget

CFPs adopted a [resolution](#) approving the [Carbon Fund budget for Fiscal Year 2017](#), which begins on July 1, 2016.

CFPs suggested that going forward, approval for the budget could be sought based on documents circulated two weeks prior to the meeting as per standard procedure, without the need for a separate presentation.

Meeting procedure

With expectations for increasing numbers of ER-PDs to be presented at upcoming meetings, CFPs, Observers and REDD+ Country Participants recognized the need for greater time, and possibly a different format, to discuss program selection and portfolio considerations. Suggestions were made on how discussions could be partially shifted to informal pre-meeting discussions, virtual discussions, or moderated discussions. It was also suggested that certain agenda items could be removed or compressed (e.g., presentation of budget proposals) to allow for more time for program selection and portfolio considerations. Longer or more frequent Carbon Fund meetings were also considered.

It was further suggested that REDD+ countries should be encouraged not to present the full scope of their ER-PD at the meeting, recognizing that CFPs and Observers would be broadly familiar with proposed ER Programs, and instead focus their presentation on key areas of feedback they had received prior to the meeting.

Though a series of two 'contact groups' were organized for each ER-PD, Observers further emphasized that informal discussions that feed into the decision-making process could benefit from greater transparency and feedback processes to Observers. Observers also underscored that their ability to participate in parallel contact

groups is limited and in-depth feedback to their constituencies on the substantive discussions and deliberation thus challenging.

Follow up action: The FMT will consider suggestions made and factor them into organization of CF15, as appropriate.

Next meetings

The fifteenth Carbon Fund meeting will be in mid-December 2016. The FMT will advise on further details as soon as possible.

In closing

CF14 was a big step forward for the FCPF Carbon Fund. The provisional selection of the first two ER Programs into the portfolio of the Carbon Fund is the result of years of pioneering work. It was the last step before detailed World Bank due diligence and negotiations on large scale carbon transactions between Participants and REDD+ Countries begin. We should be under no illusions about the effort that will be required to move through these due diligence and contract stages. We will need the continued dedication of the World Bank teams, CFPs, Observers and REDD+ countries involved in the Partnership.

Costa Rica and DRC, both champions of REDD+, have developed innovative and ambitious programs. They provide good examples of the diversity of approaches that the Carbon Fund expects to see in a growing portfolio. Their strategies reflect the unique challenges and circumstances that these two countries face. In both cases the FCPF has the opportunity to make an important contribution to their sustainable, low-carbon development aspirations. Though much work remains to be done, these countries can make a major contribution 'proving the concept' of REDD+, demonstrating its rewards and lessons.

The next rounds of Carbon Fund meetings will see the submission of ER Programs from several other countries creating further momentum. The good progress made by all the REDD+ countries that presented at CF14, and the expectation that we will see many more at CF15, provide more evidence that countries are serious about delivering on their national commitments under the historic agreement to combat climate change agreed in Paris.

If you have any questions or concerns, please do not hesitate to contact me at sean.frisby@decc.gsi.gov.uk or the FCPF FMT at fcfsecretariat@worldbank.org.

Sincerely,
Sean Frisby
United Kingdom
CF14 Chair