

## Forest Carbon Partnership Facility (FCPF)

### Carbon Fund

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

June, 2016

*(Revised from April 14, 2015 Process Guidelines)*

#### **Background**

1. The February 9, 2011 Issues Note on the Operating Arrangements under the Carbon Finance Mechanism (hereafter referred to as “Issues Note”) laid out a process for the creation of emission reductions based on 19 steps (‘Emission Reduction Creation Process’).<sup>1</sup>
2. FMT Note CF-2012-1-Rev from July 12, 2012 provided further clarification to the process laid out in the Issues Note and set out the Process Guidelines for the Carbon Fund of the Forest Carbon Partnership Facility. These process guidelines were later revised in FMT note CF-2014-3 rev from April 14, 2015.
3. This note updates the Process Guidelines to reflect the lessons learned from the first ER-PD assessments.

#### **Overview of main clarifications and changes compared to FMT Note CF-2014-3-rev**

4. Updates to the technical assessment of the draft ER-PD, inter alia: the REDD Country Participant may submit the advanced draft ER PD after the TAP country visit; more clarity on the selection of the TAP is provided; more clarity on the technical assessment process is provided; more information on the review process by CFPs and Carbon Fund Observers (Observers) is provided.

#### **Emission Reduction Creation**

5. The creation of emission reductions in the FCPF Carbon Fund consists of the steps below. Note that the steps may not necessarily be sequential.
6. The availability of Carbon Fund documents as mentioned in all the steps below is determined in accordance with the World Bank’s Access to Information Policy.

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

### *ER-PIN presentation*

7. An ER-PIN should be proposed from an FCPF REDD Country Participant that has signed its Readiness Preparation Grant Agreement, using the ER-PIN template. An ER-PIN can be presented 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. The World Bank Global Practice staff and/or FMT may support a REDD Country Participant in developing its ER-PIN and conduct due diligence in these countries, using funds allocated by the CFPs for this purpose.<sup>2</sup>

### *ER-PIN review*

8. The FMT and/or World Bank Global Practice staff verifies that the ER-PIN meets the following requirements:

- i. The ER-PIN template has been duly completed;
- ii. The entity proposing the ER Program is from an FCPF REDD Country Participant and authorized to propose the ER Program. The REDD Country Participant's national REDD+ Focal Point, or relevant authorized representative if applicable, issues an interim written approval for the proposed ER Program in accordance with national procedures.<sup>3</sup> The interim written approval shall confirm that:
  - a. The REDD Country Participant endorses the proposed ER Program and its consideration for inclusion in the FCPF Carbon Fund; and
  - b. The entity that is proposing the ER Program—whether it be the national government or another entity authorized by the national government—is authorized to submit the proposal.
- iii. The proposed ER Program, based on the information provided in the ER-PIN, has the potential to meet the ER-PIN selection criteria as determined by the CFPs (see Box 1 below); and
- iv. The information provided in the ER-PIN is consistent with the information provided in the Readiness Preparation Proposal ('R-PP') and/or readiness progress reports of the REDD Country Participant, as appropriate.

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<sup>2</sup> The World Bank conducts its due diligence throughout the development of the proposed ER Program as required by the applicable Operational Policies and Procedures (e.g., its review of environmental and social aspects, sector and country issues, risks, etc.) in accordance with standard internal procedures.

<sup>3</sup> The interim written approval will later be replaced by a formal letter of approval ('Letter of Approval') to be issued by the national authority finally assigned with the responsibility to approve ER Programs in accordance with national law and regulations, as well as national REDD+ management arrangements.

### Box 1: ER-PIN Selection Criteria for Inclusion into Pipeline

- (i) **Progress towards Readiness:** The Emission Reductions Program (ER Program) must be located in a REDD Country Participant that has signed a Readiness Preparation grant agreement (or the equivalent) with a Delivery Partner under the Readiness Fund, and that has prepared a reasonable and credible timeline to submit a Readiness Package to the Participants Committee.
- (ii) **Political commitment:** The REDD Country Participant demonstrates a high-level and cross-sectoral political commitment to the ER Program, and to implementing REDD+.
- (iii) **Methodological Framework:** The ER Program must be consistent with the emerging Methodological Framework, including the PC's guiding principles on the methodological framework.
- (iv) **Scale:** The ER Program will be implemented either at the national level or at a significant sub-national scale, and generate a large volume of Emission Reductions.
- (v) **Technical soundness:** All the sections of the ER-PIN template are adequately addressed.
- (vi) **Non-carbon benefits:** The ER Program will generate substantial non-carbon benefits.
- (vii) **Diversity and learning value:** The ER Program contains innovative features, such that its inclusion in the portfolio would add diversity and generate learning value for the Carbon Fund.

9. The World Bank Global Practice staff and/or the FMT 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.

10. If the proposed ER Program meets the requirements listed in step 8, the FMT posts the ER-PIN on the FCPF website and forwards it to the CFPs.

#### *Inclusion in the pipeline*

11. Based on the FMT's review of the ER-PIN and other relevant comments received, the CFPs shall, during predefined 'windows', decide whether or not to include the proposed ER Program in the Tranches' pipelines.<sup>4</sup> CFPs decide:

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<sup>4</sup> Selection of an ER-PIN equates to its inclusion in the pipeline. But a program is not officially included in the Carbon Fund portfolio until an ERPA is signed. Inclusion in the pipeline does not necessarily mean that an ERPA will be signed.

- i. to include the ER-PIN in the Tranches' pipeline, and allocate a financial envelope not to exceed \$650,000 unless otherwise agreed by the CFPs (subject to a signed Letter of Intent) to develop the ER-PIN into an ER Program Document that will be the basis for a possible Emission Reductions Payment Agreement (ERPA) in the future, and to support the conduct of due diligence by World Bank Global Practice staff and/or FMT. These funds will be managed by the World Bank Global Practice staff and/or FMT, including on behalf of the country or entity;
- ii. to allocate budget up to \$200,000<sup>5</sup> to support revisions to the ER-PIN, with a view to the ER-PIN being considered for inclusion in the pipeline (signature of a Letter of Intent) at a later stage. These funds will be managed by the World Bank Global Practice staff and/or FMT, including on behalf of the country or entity; or
- iii. not to include the ER-PIN. ER-PINs not included may still be modified and presented again in a subsequent batch.

12. Any financial envelope allocated will be formally authorized through the annual budgeting process and will be subject to semi-annual reporting to the CFPs. The CFPs may request the FMT to establish a TAP to assist them in reviewing specific aspects of a proposed ER Program.

13. The Trustee of the Carbon Fund ('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 example for a certain time period on the basis of exclusivity or seniority, a possible sale and purchase of certain ER volumes to be generated under the ER Program. The Letter of Intent may include provisions on cost recovery from the entity, for example in the event of intentional breaches of the exclusivity rights by the REDD+ Country and/or in the event that negotiations are not carried out in good faith. The cost recovery provisions on specific items may be capped. Upon signature of the Letter of Intent, the ER-PIN enters the pipeline of the respective Tranche(s).

14. The World Bank Global Practice staff and/or FMT liaises with the REDD Country Participant or authorized entity on ways to improve the quality of the proposed ER Program during design and/or implementation, as appropriate.

#### *Technical Assessment of the draft ER Program Document*

15. The REDD Country Participant or its authorized entity sends a draft of the ER Program Document to the FMT. The FMT checks if the draft is complete and of sufficient quality for TAP review purposes (Completeness Check). Upon meeting the Completeness Check, the FMT sends the draft ER Program

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<sup>5</sup> Up to a total of \$650,000 can be allocated to support the development of an ER Program from the initial ER-PIN submission to ER Program Document submission. For example, if \$200,000 is allocated to support revisions to an ER-PIN, then if the revised ER-PIN is later included in the pipeline, the balance of up to \$450,000 could be allocated to support development of the ER-PIN into an ER Program Document and ERPA, and related due diligence.

Document (ER-PD) to a Technical Advisory Panel (TAP) for an independent assessment against the criteria and indicators listed in the Methodological Framework of the FCPF Carbon Fund.

16. The TAP is selected by the FMT from a roster of experts based on their capacities and experience for each of the roles, their knowledge on the country context and the non-existence of potential conflict of interests with regard to their participation in the assessment.

17. The TAP conducts a Desk Review of the draft ER-PD and supporting documents, and prepares a country visit agenda and a list of questions indicating aspects of the draft ER-PD that need further clarification. The TAP conducts a country visit during which it interviews relevant stakeholders and reviews additional evidence for the assessment of the draft ER-PD.

18. After the country visit, the REDD Country Participant prepares and submits the advanced draft ER-PD to the FMT. The TAP assesses the advanced draft ER-PD and prepares an Assessment Report (AR), including a description of the changes that occurred from draft ER-PD to advanced draft ER-PD as a result of the assessment process.

19. The FMT posts the draft ER-PD, the advanced draft ER-PD and the AR on the FCPF website and notifies CFPs and Observers of the availability of the documents. The CFPs are responsible for coordinating and consolidating their respective comments and provide their comments within four weeks from the date of the notification. In order to allow the CFPs to allocate the necessary resources for the review, the FMT communicates the expected commencement of the review period to CFPs at least four weeks in advance of the date of notification.

20. The FMT may arrange a phone call between the CFPs, Observers and the REDD Country Participant or its authorized entity, within two weeks after the end of the virtual review period to clarify any questions, if necessary.

21. The REDD Country Participant or its authorized entity continues to develop the ER Program and a final ER-PD, based on inputs received from the TAP, the CFPs and the Carbon Fund Observers comments, as appropriate.

#### *Technical Assessment of the final ER Program Document and submission to CF*

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

23. The REDD Country Participant or its authorized entity, formally submits the ER Program to the Carbon Fund by submitting its final ER-PD (revised as per comments received on the advanced draft, as appropriate) to the FMT who will then send it to the TAP for its assessment.

24. The TAP assesses the final ER-PD to determine how the findings from the AR were considered in the final ER-PD and produces an updated AR. If applicable, the REDD Country Participant or its authorized entity provides a short explanatory note explaining the reasons why some findings of the TAP were not addressed. Once finalized, the FMT posts the updated AR, the final ER-PD and the REDD Country's explanatory note on the FCPF website and notifies CFPs and Carbon Fund Observers of the availability of the documents three weeks before the Carbon Fund Meeting.

25. The REDD Country Participant or its authorized entity presents its ER-PD at a Carbon Fund meeting. Based on the information available to date, which will include the FCPF Participants Committee's endorsement of the country's Readiness Package, the final ER-PD, the TAP final AR, and may include the World Bank's disclosable program documents, and technical, financial and legal information (e.g., business model, progress made in assigning a national authority with the responsibility to approve ER Programs by issuing final Letters of Approval (LoAs), etc.), the CFPs of the respective Tranche(s) decide whether to proceed to negotiating an ERPA for the proposed ER Program. This decision could be subject to the World Bank carrying out their due diligence and the World Bank's management authorization to negotiate.

26. In parallel, the World Bank task teams assist the REDD Country Participant in the preparation of the Carbon Fund Operation, in a manner consistent with Operational Policy/Bank Procedures.

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#### *ERPA negotiation*

27. 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 selected ER Program, which is sent to the REDD Country Participant and/or authorized entity and the CFPs of the respective Tranche(s).<sup>6</sup>

28. The REDD Country Participant or its authorized entity and the respective Tranche(s) of the Carbon Fund come to an agreement on the terms of the ERPA, and the Trustee negotiates the ERPA to reflect the agreed terms. In the ERPA negotiation process, the respective Tranche(s) of the Carbon Fund may choose to select one or more CFP representatives to observe such negotiations.

#### *ERPA signature and inclusion in portfolio*

29. The REDD Country Participant or its authorized entity and the Trustee sign the ERPA. Upon signature of the ERPA, the ER Program enters the portfolio of the respective Tranche(s).

30. Issuance of a formal Letter of Approval for the ER Program, issued by the national authority finally assigned with the responsibility to approve ER Programs in accordance with national law and regulations, as well as national REDD+ management arrangements, would be a requirement under the ERPA.

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<sup>6</sup> To the extent possible, the Tranche(s) will only commit to contract and pay for a fraction of the ER potential of the ER Program, leaving room for interested entities to participate in one or more additional transactions (ERPAs). Such transaction(s) could include CFPs from either Tranche and/or entities from outside of the Carbon Fund negotiating one or more separate ERPA(s);