

**Forest Carbon Partnership Facility
Sixteenth Meeting of the Carbon Fund (CF16)
Paris, France | June 19-22, 2017
Chair's Summary**

Dear Carbon Fund Participants and Observers,

I would like to thank the Carbon Fund Participants (CFPs), REDD Country Participant delegations, and Observers—from REDD Country Participants, Indigenous Peoples' organizations, civil society, and the private sector—who took part in the sixteenth Forest Carbon Partnership Facility (FCPF) Carbon Fund meeting (CF16) June 19-22, 2017 in Paris, France. I also wish to acknowledge the presence of and thank the Honorable Deputy Minister Owusu-Bio of the Ministry of Land and Natural Resources, Ghana.

Please find below the main conclusions from the meeting. All relevant background materials, presentations, resolutions and this summary are available on the FCPF website at <https://www.forestcarbonpartnership.org/CF16>.

Setting the Stage for ER-PD Selection

The Facility Management Team (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.

Selection of ER-PDs at CF16

[Ghana](#) and the [Republic of Congo](#) presented ER-PDs for selection into the Carbon Fund portfolio. ER-PDs presented took into consideration comments received during the technical assessment from the Technical Advisory Panel (TAP), CFPs, and Observers, as applicable.

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

CFPs [selected the ER Program from Ghana](#) and [provisionally selected the ER-Program from the Republic of Congo](#) into the Carbon Fund portfolio. ERPA negotiations will proceed subject to completion of the World Bank's due diligence on the programs and, in the case of the Republic of Congo, fulfillment of conditions as stated in

the [respective resolution](#).

Ghana

CFPs commended Ghana on a [high quality and ambitious ER-PD](#), drawing attention to their strong progress on private sector engagement and gender mainstreaming, particularly the mandatory inclusion of women in all decision-making bodies. They also noted Ghana's enforcement-centered approach to addressing drivers associated with illegality.

CFPs encouraged Ghana 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:

- Provide additional information on the timeframe for operation of the interim Feedback and Grievance Redress Mechanism (FGRM) process before the formalization of the legally backed FGRM.
- Clarify management of the benefit sharing plan and associated criteria and timelines for associated benefit distribution.
- Provide evidence of consultations with relevant stakeholders on the development of the benefit sharing plan and to confirm the suggested structure for the community development fund including the demand for a cocoa insurance scheme.
- Correct the initial volume of ERs to be transacted (on page 69 of ER-PD). Currently the Executive Summary and main text of ERPD present different numbers.
- Based on information provided at the CFP meeting, clarify how a program strategy focused on engagement with the cocoa sector also addresses deforestation from agriculture more broadly.
- Consider during the implementation of the ER Program synergies and complementarity with related programs, including those that may be supported by the FIP and bilateral or multi-lateral programs.

Republic of Congo

CFPs commended the Republic of Congo for a [well drafted and high quality ER-PD](#), appreciating the efforts made to align the ER-PD with national legislation and integrate REDD+ into national development plans. CFPs were also encouraged by the progress made in the areas of safeguards and benefit sharing mechanisms.

CFPs encouraged 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:

- Elaborate on the management of risks related to potential GHG emissions from peatlands by monitoring soil organic carbon and non-CO₂.
- Improve uncertainty analysis related to the use of the Monte Carlo method (Indicator 9.1).
- Clarify that no threshold will be applied to account for reversals (Indicator 21.1).
- Elaborate on the mitigation of reversal risks to address the sustainability of ERs beyond the term of the ERPA (Indicator 18.2).
- Explain the steps intended to achieve consistency with the country's GHG inventory (Indicator 10.3).

- Clarify the reference period for the historical emissions.
- Clarify that mining concessions are not part of the quantification of the adjustment.
- Outline the financing strategy for MRV.
- Explain the steps to develop the transaction registry.
- Review the assumptions for carbon accounting of the conversion of open natural forest to degraded forest.
- Provide the plan to build capacities for ER Program implementation.
- Provide information on the areas planted and to be planted annually under the existing palm oil concessions.

CFPs further encouraged the Republic of Congo to consider during ER Program implementation synergies and complementarity with related programs, including those that may be supported by Central African Forest Initiative, the Forest Investment Program, the Green Climate Fund and other bilateral or multi-lateral programs.

Indonesia Letter of Intent (LOI)

CFPs and Indonesia spoke regarding Indonesia's request for changes to be made to their draft LOI. Indonesia had requested that their LOI reflect country specific changes from the general CF LOI template to address their country-specific issues. CFPs are now consulting within their organizations on Indonesia's requests.

CFPs acknowledge that the ability to use ERs generated through the Carbon Fund towards their Nationally Determined Contributions (NDCs) is an issue which is of interest to many REDD+ countries, and would welcome a more general discussion at a future Carbon Fund meeting.

Progress Update

The FMT provided an [update on progress made since the last meeting](#) in December 2016. CFPs welcomed the comprehensive progress update that covered *inter alia* progress against interim milestones, the ongoing ERPA negotiation and technical assessment processes, new knowledge and communication products, and upcoming deliverables and decisions.

The FMT highlighted several expected discussion topics for 2017, aside from ER Programs, including the following:

- Revisit financing options to address financing gaps in ER Programs.
- Revisit progress made on private sector engagement.
- Revisit progress made on portfolio management, including delivery risk management.
- Follow-up on any open discussions related to practical application of the MF, as well as continued fine-tuning of related processes (TAP, etc.).
- Discussion on options for "soft closure" of Carbon Fund (CF) tranches. The trustee recommended consideration of soft closure upon signing of first ERPA unless CFPs decide otherwise.
- Capturing early lessons from ERPA negotiations to guide further negotiations.

- Discussion on potential development of a centralized generic transaction registry for possible use by FCPF REDD+ countries.
- Discussion on the ability of countries to use ERs generated through the Carbon Fund towards their NDCs.
- Discussion around Article 5/6 of the Paris Agreement.

Portfolio Considerations

The Carbon Fund pipeline includes a total of 19 ER-PINs, and the portfolio includes six ER-PDs following this meeting. [CFPs considered strategic portfolio management issues](#) including estimates of delivery under the Monte Carlo method and the new ER delivery risk assessment model introduced at CF15, as well as High Forest Cover, Low Deforestation (HFLD) adjustments. The FMT will continue to improve the ER delivery risk assessment model.

Private Sector Engagement

CFPs generally endorsed a series of [proposals outlined](#) by FMT in a [discussion paper on improving FCPF private sector engagement](#).

CFPs agreed to cover, for a one-year trial period, the cost of participation of non-profit organizations that serve as CF observers, if needed and requested. Currently, non-profit organizations serve in the Northern CSO, International Organizations, and, sometimes, the private sector seats. Support would be limited to non-profit organizations (i.e., a private company representing an association would not be eligible). This practice will be reviewed and considered again for the subsequent budget year.

CFPs requested the private sector institute a selection process to identify the representative for the private sector observer seat. The election processes for Northern CSOs and Southern CSOs might serve as models for this process.

Noting the multiple facets of the private sector, CFPs also requested the private sector observer to i) increase outreach to a broad set of private sector actors, including markets, finance, and agriculture and forest sector actors, to better represent their views in the CF and increase awareness of the CF and ER Programs and ii) strive to include both northern and southern private sector perspectives in their representation.

Additionally, to help ensure this breadth of perspectives, the CFPs authorized the FMT to consider on an ad-hoc basis requests from an additional private sector actor, especially those focused on sustainable commodities, to attend CF meetings. This could be particularly useful where specific related items are being considered.

The Carbon Fund will continue to consider appropriate modalities for observer participation going forward.

Budget

CFPs adopted a [resolution](#) approving the [Carbon Fund budget](#) for Fiscal year 2018, which begins on July 1, 2017.

As suggested by CFPs in CF14, the budget request was considered based on documents circulated two weeks prior to the meeting without the need for a separate presentation.

Regarding the private sector, CFPs approved an additional budget of up to \$600k, which is included in the overall Carbon Fund budget for Fiscal year 2018. The FMT clarified that this budget for the Carbon Fund will not be used to support observer travel to Participants Committee and Participants Assembly meetings.

Verification Process

The FMT [presented different options on the reporting and verification process of ER Programs](#) to the CFP for guidance, broaching issues on (i) the scope of reporting and verification, (ii) verification arrangements, and (iii) the verification approach for ERs.

CFPs suggested that REDD+ Countries report on all the sections of the MF as presented by the FMT, with the verification scope covering the carbon accounting section (i.e. ERs, reversals and leakage) and the section of the MF on registries (i.e. 6.2).

CFPs recommended the FMT hire a verification entity and the verification entity should follow an auditing approach, while keeping in mind the importance of strengthening country capacity and systems.

CFPs discouraged testing the option of a verification entity for the technical assessment of one ERPD, as this could create inconsistencies with the assessments conducted by TAPs in the other ERPDs.

Follow-up action

CFPs requested the FMT to propose a list of possible verification entities at CF17, which can then be presented for approval at a subsequent PC meeting.

Transfer of Title

The FMT [presented on the transfer of title](#) requirement under the MF and the ERPA General Conditions. The presentation provided background information, the anticipated level of due diligence applied by the Bank regarding the Program Entity's demonstration of its ability to transfer title prior to ERPA signature/ER transfer and the risk management tools provided in the ERPA General Conditions in case of subsequent contests.

CFPs agreed with the World Bank's due diligence approach presented by the FMT regarding transfer of title, and provided some suggestions for FMT's consideration on the due diligence process.

Follow-up action

The FMT will prepare an indicative check list for the type of evidence Program Entities should submit to demonstrate their ability to transfer title to ERs, including legal opinion.

Practical Application of Methodological Framework (Carbon Accounting)

The FMT [presented](#) on some of the issues related to the practical application of the Methodological Framework, and options for addressing them, that emerged from a workshop on lessons learned held in April.

CFPs provided the following guidance:

- Continue the use of the “Yes/No” scoring framework, with the understanding that the TAPs should provide adequate information on the rationale of their scoring and a clear indication in the text whether a non-conformity is a “major” or “minor” issue.
- Ensure the TAP teams include remote sensing and statistics experts, drawing on additional support where necessary.
- Encourage information exchange between CFPs and TAPs, preferably after the CFP review period.
- Provide countries with technical guidance—early in the process—regarding uncertainty analysis and the consistency between the national processes and the ER Program level, making efforts to use (as opposed to create) existing guidance as much as possible.

Updating Reference Levels

CFPs supported the FMT’s [proposal](#) to explore the option allowing countries to improve the accuracy and precision of the activity data used to establish the Reference Level, appreciating that this is not an update of the Reference Level but rather an improvement in accuracy/precision.

Registries

CFPs supported the FMT’s [proposal](#) to survey REDD+ Country participants on their preferences regarding having a centralized generic versus a national transaction registry. They also supported the subsequent exploration of options and costs associated with developing a centralized registry, keeping in mind opportunities for synergy and cost-sharing with other World Bank Carbon Funds. The CFPs requested the FMT to present a way forward at the next Participants Committee meeting.

While CFPs and Observers recognized that the decision to use a centralized or national registry rests with the individual REDD+ Countries, they support the development of a centralized generic registry, citing economies of scale and attractiveness to the private sector.

ICAO and CORSIA

The FMT [presented on the Carbon Offsetting Scheme for International Aviation \(CORSIA\)](#), under which aircraft operators will be required to purchase offsets, or “emission units”, for the growth in CO₂ emissions covered by the scheme.

CFPs were generally supportive of exploring the potential for the FCPF to serve as a program under the CORSIA, while recognizing that such engagement is conditional on (i) the absence of any adverse impacts on the environmental integrity and high standards of FCPF emissions reduction programs; (ii) does not create any non-voluntary obligations on the behalf of REDD+ Countries; and (iii) does not pose a reputational risk.

The FMT will consult with the CFPs on the potential application to join CORSIA and any modalities associated with such an application.

Options for Upfront Financing of ER Programs

Achieving results of ER Programs significantly depends on the financing available to meet the costs of implementation of the programs. A recent review of financing plans of ten ER-PDs shows that a gap exists in the amount of financing available and cost of implementation of some of the ER Programs.

The FMT [highlighted the](#) risk where financing gaps could impact ER Program feasibility and suggested options for addressing these financing gaps. These approaches are likely to be country specific.

The FMT will continue to explore bond options and will consult CFPs regarding guarantees attached to bonds, when more information becomes available. The FMT will also continue to explore guarantees associated with stand-alone projects.

Evaluation

A second FCPF evaluation of the FCPF was completed in September 2016. An [FMT Note](#) on the Draft Action Plan was prepared to address the recommendations of the evaluation and the FMT presented a number of proposals responding to the evaluation’s recommendations at PC23. At this meeting, the FMT [provided information and an update](#) on recommendations and actions specifically related to the Carbon Fund. CFPs appreciated a CF-specific update.

Next Meetings

The 17th Carbon Fund meeting will be held in Paris during the week of December 11-15. The FMT will advise on further details as soon as possible.

In Closing

CF16 was another important step forward for the FCPF Carbon Fund, with years of countries' preparatory work in national REDD+ readiness and ER Program development coming to fruition. The addition of two countries into the Carbon Fund portfolio—Ghana and the Republic of Congo, provisionally—brings the total number accepted to six. And momentum behind portfolio development and diversification continues to build, with four additional countries expected to present their ER Programs at CF17—Madagascar, Mozambique, and Nepal, along with a re-submission from Vietnam.

Meanwhile the first ERPA negotiations for Chile and the Democratic Republic of Congo are anticipated in the coming months and will result in the first contracts for large-scale transaction from REDD+. This progress will provide important lessons and experiences for 'proving the concept' of REDD+ and catalyzing the realization of REDD+ at scale.

Finally, as the content of Carbon Fund meetings increasingly addresses the technical aspects of countries' ER Programs, the FCPF is situated at the forefront of thinking on issues of climate finance. CF16 saw significant discussion centered around many areas of fundamental knowledge including registries, verifications, and due diligence on transfer of title, which significantly contribute to the work of the UNFCCC and others.

If you have any questions or concerns, please feel free to contact me at Anthony.Bennie@environment.gov.au or the FCPF FMT at fcpfsecretariat@worldbank.org.

Sincerely,

Anthony Bennie

Australia

CF16 Chair