

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

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

March 2019

(Revised from June 2016 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’).¹
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.
3. FMT Note CF-2014-3 rev from April 14, 2015 revised the Process Guidelines to add the submission and review of the advanced draft ER Program Document (ER-PD).
4. FMT Note CF2016-2 from June 2016 further updated the Process Guidelines to reflect the lessons learned from the first ER-PD assessments.
5. This note further updates the Process Guidelines to reflect the lessons learned from the ER-PD assessments and adds information on the other steps identified in the Issues Note related to monitoring, reporting and verification.

Emission Reduction Creation

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

¹ The Issues Note is available at

<http://www.forestcarbonpartnership.org/sites/forestcarbonpartnership.org/files/Documents/PDF/Mar2011/FCPF%20Carbon%20Fund%20Issues%20Note%2002-09-11.pdf>

ER-PIN presentation

8. An Emission Reductions Program Idea Note (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 the FCPF Facility Management Team (FMT) may support a REDD Country Participant in developing its ER-PIN and conduct due diligence in these countries, using funds allocated by the FCPF Carbon Fund Participants (CFPs) for this purpose.²

ER-PIN review

9. 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.³ 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

² 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.

³ 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.

- 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.

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 FCPF Carbon Fund's Methodological Framework (December 20, 2013).
- (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 FCPF Carbon Fund.

10. 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.

11. If the proposed ER Program meets the requirements listed in step 9, the FMT posts the ER-PIN on the FCPF website and forwards it to the CFPs.

Inclusion in the pipeline

12. 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.⁴ CFPs decide:

- 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). The funds may be used for developing the ER-PIN into an ER-PD that will be the basis for a possible Emission Reductions Payment Agreement (ERPA) in the future, and for supporting 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 provisionally include the ER-PIN in the Tranches' pipeline, and upon fulfillment of a number of conditions, allocate a financial envelope not to exceed \$650,000⁵ unless otherwise agreed by the CFPs (subject to a signed Letter of Intent). The funds may be used for developing the ER-PIN into an ER-PD that will be the basis for a possible ERPA in the future, and for supporting the conduct of due diligence by World Bank Global Practice staff and/or FMT. The REDD Country Participant or its authorized entity provides a revised ER-PIN and/or other evidence addressing the conditions for provisionally including the ER-PIN in the Tranches' pipeline. The FMT checks if the revised ER-PIN and/or evidence provided fulfils the conditions. Upon finding that the conditions are fulfilled, the FMT posts the revised ER-PIN and/or other evidence on the FCPF website, and notifies CFPs and FCPF Carbon Fund Observers of the availability of the documents;
- iii. to allocate budget up to \$200,000⁶ to support revisions to the ER-PIN, with a view to including the ER-PIN in the pipeline at a later stage (subject to a signed Letter of Intent). These funds will be managed by the World Bank Global Practice staff and/or FMT, including on behalf of the country or entity;

⁴ 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.

⁵ These funds will be managed by the World Bank Global Practice staff and/or FMT, including on behalf of the country or entity.

⁶ 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.

- iv. not to include the ER-PIN. ER-PINs not included may still be modified and presented again in a subsequent batch.

13. 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 Technical Advisory Panel (TAP) to assist them in reviewing specific aspects of a proposed ER Program.

14. The World Bank, acting as trustee of the FCPF 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 in good faith an ERPA for the potential sale and purchase of certain ER volumes to be generated under the ER Program during a certain time period on the basis of exclusivity and seniority. The Letter of Intent may include provisions on cost recovery from the entity, for example in the event of a breach of the exclusivity provisions under the Letter of Intent by the REDD+ Country and/or in the event that ERPA 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).

15. 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

16. The REDD Country Participant or its authorized entity sends a draft of the ER-PD 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-PD to the TAP for an independent assessment against the criteria and indicators listed in the Methodological Framework.

17. 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 TAP assessment.

18. 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.

19. 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.

20. The FMT reviews the AR for consistency and quality. Upon finding the quality of the AR satisfactory to the FMT, the FMT posts the draft ER-PD, the advanced draft ER-PD and the AR on the FCPF website and notifies CFPs and FCPF Carbon Fund observers (Observers) of the availability of the documents. The CFPs are responsible for coordinating and consolidating their respective comments and

provide their comments within four (4) 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 (4) weeks in advance of the date of notification.

21. The FMT may arrange a phone call between the CFPs, Observers and the REDD Country Participant or its authorized entity, within two (2) weeks after the end of the virtual review period to clarify any questions, if necessary.

22. 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 Observers comments, as appropriate.

Technical Assessment of the final ER Program Document and submission to FCPF Carbon Fund

23. 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.

24. 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.

25. 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, and upon completion of the FMT review process, 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 Observers of the availability of the documents three (3) weeks before the Carbon Fund Meeting.

26. 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 or not to include the proposed ER Program in the FCPF Carbon Fund portfolio. CFPs decide:

- i. to select the ER Program into the FCPF Carbon Fund portfolio and proceed to negotiate an ERPA for the proposed ER Program, subject to completion of the World Bank due diligence and the authorization by the World Bank management to negotiate;
- ii. to provisionally select the ER program into the FCPF Carbon Fund portfolio and proceed to negotiate an ERPA for the proposed ER Program, subject to the completion of the World Bank due diligence, the authorization by the World Bank management to negotiate, and

- fulfillment of a number of conditions to the satisfaction of the Trustee and/or the TAP in accordance with the applicable resolution. If applicable, the REDD Country Participant or its authorized entity provides a revised ER-PD in accordance to the deadline set out in the applicable resolution. The FMT checks if the revised ER-PD fulfils the conditions set by the CFPs. Upon finding that the conditions are met, and only if applicable, the FMT sends the revised ER-PD to the TAP to assess the revisions made to the ER-PD and compliance with CFPs conditions, and provides a revised AR. The FMT posts the revised ER PD and revised AR on the FCPF website and notifies CFPs and Carbon Fund Observers of the availability of the documents;
- iii. not to select the ER program into its portfolio yet (i.e. not to proceed to negotiate an ERPA for the proposed ER Program) but to request the REDD Country Participant to resubmit a revised ER-PD that fulfills a number of conditions. The REDD Country Participant or its authorized entity sends the revised ER-PD to the FMT. The FMT checks if the revised ER-PD fulfils the conditions set by the CFPs. Upon finding that the conditions are met, the FMT sends the revised ER-PD to the TAP to assess the revisions made to the ER-PD and compliance with CFPs conditions, and provides a revised AR. The FMT posts the revised ER-PD and revised AR on the FCPF website and notifies CFPs and Observers of the availability of the documents in accordance with the deadline set in the applicable resolution; or
 - iv. not to select the ER program into its portfolio and, therefore, not to proceed to negotiating an ERPA and do not request the REDD Country Participant to resubmit.

27. 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.

Benefit Sharing Plans

28. The process for Benefit Sharing Plans including reviews by CFPs is in accordance with the “Note on Benefit Sharing for Emission Reductions Programs Under the Forest Carbon Partnership Facility and BioCarbon Fund Initiative for Sustainable Forest Landscapes” dated January 2019.⁷

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https://www.forestcarbonpartnership.org/sites/fcp/files/2019/Jan/FCPF_ISFL_Benefit%20Sharing%20Note_Jan%202019.pdf

ERPA negotiation

29. 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).⁸

30. 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 represent the Tranche in the ERPA discussions and negotiations.

ERPA signature

31. In case the REDD Country Participant intends to apply a technical correction to the reference level in accordance with the applicable guidance⁹, the REDD Country Participant notifies to FMT no later than the date of the ERPA signature.

32. The REDD Country Participant or its authorized entity and the Trustee sign the ERPA.

33. 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.

Monitoring and reporting

34. In case the REDD Country Participant intends to apply a technical correction to the reference level in accordance to the applicable guidance¹⁰, it provides to FMT, no later than three (3) months prior to the end of the first Reporting Period, a complete description of technical corrections that will be applied to the reference level for the ER-Program.

⁸ 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);

⁹ Guidance document 2: Guidance on Technical corrections to GHG emissions and removals reported in the reference period:
https://www.forestcarbonpartnership.org/sites/fcp/files/2018/Dec/FCPF%20Guidance%20document%20on%20the%20Methodological%20Framework%20number%202_Rev01_FinalVersion.pdf

¹⁰ Guidance document 2: Guidance on Technical corrections to GHG emissions and removals reported in the reference period:
https://www.forestcarbonpartnership.org/sites/fcp/files/2018/Dec/FCPF%20Guidance%20document%20on%20the%20Methodological%20Framework%20number%202_Rev01_FinalVersion.pdf

35. Within forty five (45) calendar days following the end of each Reporting Period, the REDD Country Participant provides the FMT with an ER Monitoring Report for that Reporting Period, in accordance with Section 5.01 (b)(i) of the General Conditions. The frequency of reporting and the length of the Reporting Periods are specified in the ERPA. The ER Monitoring template is available on the [FCPF website](#). The information in the ER Monitoring Report will be fed into the FCPF Monitoring and Evaluation Framework, which can be found on [the FCPF website](#).

36. The REDD Country Participant monitors and reports to the FMT on the implementation of the Safeguards Plans and Benefit Sharing Plan in accordance with the ERPAs.

Verification

37. The REDD Country Participant or its authorized entity sends the ER Monitoring Report and any supporting documentation to the FMT. The FMT checks the ER Monitoring Report is complete and of sufficient quality (Completeness Check).

38. All ERs generated by the ER Program during each Reporting Period are subject to Verification by an Independent Reviewer. The FMT, in consultation with the REDD Country Participant or its authorized entity, arranges for such Verification and contracts an Independent Reviewer for Verification purposes within forty five (45) calendar days of when the FMT has determined the ER Monitoring Report is complete and of sufficient quality to start the Verification.

39. The FMT posts the complete ER Monitoring Report and any supporting documentation on the FCPF website and notifies CFPs and Observers of the availability of the documents.

40. The Independent Reviewer conducts a Desk Review of the ER Monitoring Report and supporting documents, and a country visit.

41. The Independent Reviewer and the REDD Country Participant or its authorized entity follow a standard audit approach to discuss and potentially close out any corrective actions or clarifications. If applicable, the REDD Country Participant or its authorized entity sends an updated ER Monitoring Report to the FMT containing the corrections and other relevant information.

42. In the case the REDD Country Participant proposes a technical correction to the reference level as part of the ER Monitoring Report and the Independent Reviewer finds that the correction is not consistent with the applicable guidance and the Methodological Framework, these will be reported back to the CFPs and discussed either virtually or during a subsequent Carbon Fund Meeting and its use under the ER Program will be decided in accordance with the applicable guidance.

43. The Independent Reviewer issues a Verification Report that includes without limitation:

- i. a statement of the amount of Verified ERs the ER Program has generated in the relevant Reporting Period; and
- ii. an overview of the findings of the verification in relation to how the ER Program meets the relevant criteria and indicators of the Methodological Framework, including information on how any corrective actions or clarifications have been addressed;

- iii. any information on such other matters as may be required by the REDD Country Participant's MRV System, the Methodological Framework, and the ERPA; and
- iv. a description of the assessment of the corrected reference level if a technical correction to the reference level has been applied by the REDD Country Participant.

44. The FMT posts the Verification Report and, if applicable, an updated version of the ER Monitoring Report on the FCPF website and notifies CFPs and Observers of the availability of the documents.

Payments and allocation of ERs to the Carbon Fund Participants

45. Based on the Independent Reviewer's Verification Report, and subject to applicable operational policies and procedures and ERPA provisions being complied with, the Trustee determines and notifies the REDD Country Participant or its authorized entity of the amount of generated and Verified ERs for which the REDD Country Participant or its authorized entity has demonstrated its ability to transfer Title to ERs and which form part of the ER Transfer.

46. If applicable, the Trustee, following consultations with the REDD Country Participant or its authorized entity, determines and notifies the REDD Country Participant or its authorized entity of the amount of generated and Verified ERs that the REDD Country Participant or its authorized entity has to deposit into the ER Program Buffer as Buffer ERs in accordance with the ER Program Buffer Guidelines.

47. Within thirty (30) calendar days following receipt of the Buffer ERs in the ER Program Buffer, the REDD Country Participant or its authorized entity provides the Trustee with a signed ER Transfer Form which documents the amount of Verified ERs to be transferred to the FCPF Carbon Fund.

48. Following completion of an ER Transfer, the Trustee makes the payment to the REDD Country Participant or its authorized entity in accordance with the ERPA.

49. The Trustee of the FCPF Carbon Fund accounts for the pro-rated amount of ERs transferred to each Tranche of the FCPF Carbon Fund and allocates a pro rata share of ERs to each Tranche Participant.