

**Forest Carbon Partnership Facility
Carbon Fund
Fourth Meeting (CF4)
Santa Marta, Colombia, June 24-25, 2012**

Chair's Summary

Dear Carbon Fund Participants and Observers,

I would like to thank the Carbon Fund Participants and observers from REDD Country Participants, Indigenous Peoples' organizations, non-governmental organizations, and private sector who took part in the fourth meeting of the FCPF Carbon Fund (CF4) on June 24-25, 2012 in Santa Marta, Colombia. The Facility Management Team (FMT) of the FCPF and all Participants in the meeting would like to thank the Government of Colombia for hosting it.

Please find below the main conclusions from the meeting, which are also being translated in French and Spanish. All background materials, presentations, Resolutions and this summary are available on the FCPF website at <http://www.forestcarbonpartnership.org/fcp/node/515>.

Early ideas on potential ER Programs

- Building on the agreement at CF3 that presentations on potential ER Programs are encouraged, three countries presented their early ideas on potential programs.
- Using the draft template and guidelines for an Emission Reductions Program Idea Note (ER-PIN), the DRC presented the elements of a sub-national ER Program to be implemented in the Plateau District, in the Bandundu province. The program activities would cover around 2 million hectares over 10 years, including old growth, secondary and savanna lands. Information on elements such as the implementation framework, monitoring, and reference levels was also presented. These activities would include support to local land use planning, community organization strengthening, agricultural intensification and fuelwood plantations. Questions from CF Participants included the following: i) how to ensure payments reach local communities and the role of community monitoring and verification of results; ii) how to ensure that agriculture intensification does not generate a 'rebound effect' leading to further deforestation; iii) what level of commitment DRC is expecting from the Carbon Fund before moving ahead in the design of this program; iv) what the role of reduced impact logging would be as a program activity; and v) whether the model could be implemented at a larger scale.
- Following earlier presentations at CF2 and CF3, Costa Rica presented more details on a possible ER Program for the Carbon Fund, including information on possible approaches to reference levels and MRV. The presentation raised some important issues that need to be considered when designing and reviewing ER Programs, such as: i) the challenges countries face in determining the level of accuracy and error in designing an MRV system for the ER Program, especially given cost considerations; ii) the importance of providing support to countries developing ER Program proposals and MRV systems; and iii) the challenge of adopting a jurisdictional approach nested within a national system.
- Vietnam presented potential ideas for an ER Program consistent with the new national REDD+ strategy, as well as REDD+ initiatives that are supported by a variety of development partners. Information included potential approaches to MRV and monitoring, benefit distribution systems, and safeguards, as well as Memoranda of Understanding signed with neighboring countries to address leakage. Vietnam received valuable feedback on early ideas for sub-national ER programs,

and the coordination of REDD+ activities in the country and regionally. Vietnam's presentation provided an important REDD+ country perspective on the ER Program development and funding process discussed by Carbon Fund Participants at this meeting.

Selecting ER-PINs into the pipeline: Draft selection criteria

- The FMT presented two options for draft selection criteria for ER-PINs: one more exhaustive list including elements that are included in the ER-PIN template, and one shorter list focusing on overarching, more strategic criteria. Participants agreed to use a shorter list, in light of the fact that all elements included in the ER-PIN template would be taken into consideration when selecting an ER-PIN. The agreed criteria are the following (see details in Resolution CFM/4/2012/1):
 - Progress towards Readiness
 - Political commitment
 - Methodological Framework
 - Scale
 - Technical soundness
 - Non-carbon benefits
 - Diversity and learning value.

Processing steps from ER-PIN to ERPA

There was agreement on a number of issues related to the processing of and decision-making around ER-PINs and ER Program Documents. Where applicable, FMT Note CF-2012-1-rev has been revised to reflect these agreements, and is attached here. The revised guidelines in the FMT Note will be used to guide the processes and decisions on inclusion of ER Programs in the pipeline(s) and portfolio(s) of the respective Carbon Fund Tranches.

- Given the adoption at the twelfth meeting of the Participants Committee of the Methodological Framework and Pricing Approach for the Carbon Fund of the FCPF (see Resolution PC/12/2012/3), eligible entities from REDD Country Participants are invited to present ER-PINs for consideration starting at the next Carbon Fund meeting. Under the assumption that the next Carbon Fund meeting will be held in October 2012, the deadline for submission to the FMT will be September 1, 2012, giving two weeks for the FMT to liaise with the eligible entity to ensure the ER-PIN has met requirements. The deadline for addressing any outstanding issues will be September 15, 2012, for posting on the FCPF website, forwarding to the CF Participants and arranging for its translation in English if necessary.
- The CSO Observer noted their objection to inviting ER-PIN submissions for consideration at the next Carbon Fund meeting.
- In recognition that a country may not have formalized its REDD+ management arrangements at the time an ER-PIN is presented, an interim written approval for the proposed ER Program by the REDD Country Participant's national REDD+ Focal Point, or relevant authorized representative if applicable, will be required at the time of ER-PIN presentation. The interim written approval will later be replaced by a formal 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. This could be included as a requirement under the Emission Reductions Payment Agreement (ERPA).
- Right of first refusal is not required before publishing an ER-PIN. It is expected that similar protections would be provided in the Letter of Intent.

- It is not expected that a TAP will be involved in ER-PIN reviews, though the CF Participants may request the FMT to establish a TAP to assist them in reviewing specific aspects of a proposed ER Program, whether at ER-PIN or ER Program Document stage.
- Decisions regarding ER Program Documents, in particular whether to proceed to ERPA negotiations, will be based on information contained in the ER Program Document itself as well as on additional technical, financial and legal information available at that time, including the World Bank's due diligence, as relevant.

Options for funding preparation of ER Programs

- There was agreement on a number of issues related to funding the preparation of ER Programs. The following agreements will be reflected in the Process Guidelines in FMT Note CF-2012-1-rev:
 - CF Participants agreed to allocate a financial envelope not to exceed \$650,000 unless otherwise agreed by them (subject to a signed Letter of Intent) to develop the ER-PIN into an ER Program Document, and to support the conduct of due diligence by World Bank regional staff and/or FMT.
 - No Program Development funds will be provided through grants to the REDD+ Countries. All Program Development expenditures will be managed by World Bank regional staff and/or FMT, including on behalf of the country or entity.
 - Any financial envelope allocated will be formally authorized through the annual budgeting process and will be subject to semi-annual reporting to the CF Participants as part of the FCPF monitoring framework.
 - The Letter of Intent will include cost recovery provisions in the event of intentional breaches of the exclusivity rights by the REDD+ Country and in the event that negotiations are not carried out in good faith, and possibly impose a cap on the amount of costs that can be recovered.
- In addition, it was highlighted that there will be no recovery of the \$200,000 business development budget that was previously allocated across the portfolio (as per Resolution CFM/3/2012/1).
- It was agreed that standard cost recovery through the ERPA will be through a percentage deduction from ER payments over the term of the ERPA (called "Cost Recovery Discount").
- It was also agreed that, in the event that there are insufficient ERs generated to enable the standard percentage cost recovery, the ERPA will provide for cost recovery in the event of intentional breach of the ERPA by the REDD+ Country or authorized entity, but no cost recovery in the case of simple default.

Developing an ERPA: the term sheet as part of ERPA General Conditions

- In the context of the FCPF ERPA term sheet process, CF Participants discussed certain critical elements related to, in particular, performance-based payments, reversal risks and benefit-sharing mechanisms. There was wide support for performance-based payments as well as recognition of the importance of annual payments in order to effectively address drivers of deforestation. Some CF Participants expressed their support to explore possible annual (advance) payments against certain proxies or milestones pending subsequent verification, with adjustments of accounts made after verification. Participants also noted that forward crediting should not be permitted, e.g., ERs should not be transferred and claims should not be able to be made until after a credit has been verified. Discussions on reversal risks showed that further discussions are necessary to address potential reversal events within and beyond the duration of the ERPA. With respect to the issue of benefit-sharing, Observers highlighted and CF Participants acknowledged the significance of ensuring that benefits under the ERPA are to be shared at the affected stakeholder level to effectively address drivers of deforestation.

- CF Participants requested the Trustee to circulate a first draft ERPA term sheet proposal by early September 2012 to allow a proper review and comments upon the proposal (including through possible conference calls to enhance learning on this topic) and ensure that a revised draft ERPA term sheet proposal can be presented at PC13 (October 2012) for endorsement purposes. Participants noted the importance of having those who will likely be involved in ERPA negotiations participate in this review, and in future discussions, where possible.

Methodological and Pricing Approach

- The co-chairs of the PC Working Group presented the Working Group's proposed recommendations to the PC for 1) guiding principles on the key methodological framework, and 2) policy guidance on pricing methodologies for the Carbon Fund.
- These recommendations are a first step towards a strong framework for investments in quality operational ER Programs in REDD+ countries.
- Comments received on the Recommendations before the Santa Marta meeting have been posted on the platform established for these on the FCPF website: <http://www.forestcarbonpartnership.org/fcp/node/598>. Participants and Observers are invited to provide additional comments, preferably using this site.
- Several sets of comments were received, and some key issues—namely how to treat non-carbon benefits, how to address permanence, and how to define significant scale of the ER Program—were further discussed throughout the course of the pre-PC workshop and PC12 meeting in Santa Marta, which facilitated the PC's adoption of Resolution PC/12/2012/3 on the Methodological Framework and Pricing Approach for the Carbon Fund of the FCPF.
- The FMT provided an update on the development of the Methodological Framework and Pricing Approach, the TAP that will assist in this development, the new CF Working Group and its duties, and a tentative timeframe for advancing this work in time to present a draft Framework at CF6.
- The CFPs adopted Terms of Reference for a Carbon Fund Working Group, which will provide feedback and advice to the FMT during the FMT's development of a draft Methodological Framework and Pricing Approach for consideration by the Carbon Fund Participants at CF6. Carbon Fund Participants interested in participating in this Working Group self-selected (Australia, BP (to share seat with CDC Climat), Canada, EC, Germany, Switzerland, TNC, and the US nominated themselves, and BIC nominated itself as the CSO observer), while the PC Bureau was asked to nominate five REDD+ Country Participants by August 10, 2012. (See Resolution CFM/4/2012/2)

FY13 budget proposal

- Additional financial commitments and pledges to the Carbon Fund were welcomed, including US\$5.6 million by Australia, US\$5 million by Canada, and US\$4 million by the United States.
- The Carbon Fund budget of \$1.7 million plus the Carbon Fund portion of the Shared Costs to be approved by the Participants Committee later in the week was approved. (See Resolution CFM/4/2012/3.) (The Carbon Fund portion of Shared Costs subsequently approved by the PC was \$978,000.)
- The CF Participants recommended to the PC that the costs of the Additional IP/CSO Program approved by the PC in October 2011 with a budget of \$5.5 million are excluded from Shared Costs and are fully charged to the Readiness Fund.
- The CF Participants delayed closing of the Fund to new Participants by one year to June 30, 2013, but recognized that this is dependent on the success of marketing the Fund to the private sector.

Other business

- Due to time constraints, we were not able to discuss the agenda item “Carbon finance capacity building needs for REDD Country Participants,” although this theme was subsequently discussed by the Participants Committee meeting later in the week.
- The next meeting of the Carbon Fund is tentatively scheduled for October 2012. There was a preference to hold the next meeting in Europe, potentially Paris, before the next FCPF PC/PA meetings in Brazzaville, Republic of Congo. The proposed dates are October 16-17, 2012, to be confirmed in the coming weeks.
- There was a proposal to promptly set deadlines for the next few rounds of ER-PIN submissions to be considered by the CF Participants, so that interested entities can better prepare.
- There was also a proposal to create a list of rotating chairs for upcoming meetings, to allow upcoming chairs to better prepare.
- There was a call for CF Participants to self-nominate to participate in the CF Working Group on the Methodological and Pricing Approach. The FMT kindly requests nominations to be sent by August 10, 2012.

I would like to extend my thanks to everyone for contributing to very productive discussions, and to the FMT for all their support. It was particularly useful to have such diverse voices—from the public sector, private sector, REDD Country Participants, civil society and indigenous peoples—thinking through these issues together. I look forward to the further progress we will make in the next few months and at the next Carbon Fund meeting (CF5). If you have any questions or concerns, please do not hesitate to contact me or the FMT at fcpfsecretariat@worldbank.org.

Sincerely,

John Verdieck
United States