

May 11, 2011

**International Bank for  
Reconstruction and Development**

**Charter Establishing  
The Forest Carbon Partnership  
Facility**

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**International Bank for Reconstruction and Development**

**Charter of the Forest Carbon Partnership Facility**

**WHEREAS:**

- (A) The International Bank for Reconstruction and Development has been requested to assist developing countries in their efforts to reduce emissions from deforestation and/or forest degradation (“**REDD**”) by building their capacity and developing a methodological and policy framework that provides incentives for the implementation of REDD programs.
- (B) In furtherance of that objective, the Bank desires to establish the Forest Carbon Partnership Facility to build partnerships among developed and developing countries, public and private sector entities, international organizations, non-governmental organizations, forest-dependent indigenous peoples and forest dwellers to prepare for possible future systems of positive incentives for REDD, including innovative approaches to sustainable use of forest resources and biodiversity conservation.
- (C) The International Bank for Reconstruction and Development is prepared to establish and administer the Forest Carbon Partnership Facility on the terms and conditions set out below:

## CHAPTER I

### DEFINITIONS

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#### Article 1 Definitions

##### Section 1.1 Definitions

Unless the context otherwise requires, the following terms shall be defined as:

1. “**Additional Benefits**” means quantifiable and verifiable enhancement of conservation of biodiversity and/or improvement of local livelihoods realized as a result of implementation of the REDD activities;
2. “**Additional Contribution**” means the Contributions described in Section 7.1 (c) and Section 8.1(c);
3. “**Annual Budget of the Carbon Fund**” means the budget for the Carbon Fund described in Section 19.1(a)(ii) and the portion of the Shared Costs described in Section 19.1(b);
4. “**Annual Budget of the Readiness Fund**” means the budget for the Readiness Fund described in Section 19.1(a)(i) and the portion of the Shared Costs described in Section 19.1(b);
5. “**Annual Meeting**” means a meeting of Participants Assembly held pursuant to Section 10.1;
6. “**Board of Executive Directors**” means the Board of Executive Directors of the World Bank;
7. “**Borrowing Member Countries**” means the countries eligible to borrow from the Bank or from the IDA;
8. “**Business Day**” means a day on which the World Bank and banks in New York City are open for business in the United States of America;
9. “**Carbon Fund**” means one of the two trust funds established under the Facility to receive funding from the Carbon Fund Participants to achieve the objectives as described in Section 2.1;
10. “**Carbon Fund Participant**” means an Eligible Prospective Carbon Fund Participant that has signed a Carbon Fund Participation Agreement to participate in one of the Tranches of the Carbon Fund and has been accepted by the Trustee of the Carbon Fund;



11. “**Carbon Fund Participation Agreement**” means an agreement between a Carbon Fund Participant and the Trustee of the Carbon Fund with respect to the Carbon Fund Participant’s Contribution to a Tranche of the Carbon Fund;
12. “**Charter**” means the Charter Establishing the Forest Carbon Partnership Facility, as may be amended from time to time;
13. “**Closing Date of the Carbon Fund**” means the last date on which the Trustee enters into Carbon Fund Participation Agreements for the Carbon Fund;
14. “**Common Costs**” means the costs borne jointly by all the Carbon Fund Participants, as referred to in Section 19.1(a)(ii);
15. “**Constituency**” means respective groups of REDD Country Participants, Donor Participants and Carbon Fund Participants;
16. “**Constituency Meeting**” means the meetings described in Section 10.2 (b);
17. “**Contribution**” means the contribution to the Readiness Fund from a Donor Participant or contribution to a Tranche of the Carbon Fund from a Carbon Fund Participant, as the case may be;
18. “**Criteria for Grant Allocation for Readiness Preparation Proposal**” means a set of criteria for allocating grants to each REDD Country Participant for developing and implementing a Readiness Preparation Proposal, as proposed by the Facility Management Team and approved by the Steering Committee, which may be modified by the Participants Committee;<sup>1</sup>
19. “**Criteria for Selection of the REDD Country Participants**” means the set of criteria set forth in the Annex to this Charter;
20. “**Demand for Payment**” means a demand for payment issued by the Trustee of the Readiness Fund to Donor Participants or the Trustee of the Carbon Fund to Carbon Fund Participants requesting payment of part or all of the Contribution;
21. “**Donor Participant**” means an Eligible Donor that has signed a Donor Participation Agreement to participate in the Readiness Fund;
22. “**Donor Participation Agreement**” means an agreement between a Donor Participant and the Trustee of the Readiness Fund with respect to the Donor Participant’s Contribution to, and participation in, the Readiness Fund;
23. “**Eligible Prospective Carbon Fund Participant**” means a public or private entity whose participation in a Tranche of the Carbon Fund has been approved by the World Bank;

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<sup>1</sup> Amended in accordance with Resolution PA/2/2009/2

24. “**Eligible Donor**” means a public or private entity whose participation in the Readiness Fund has been approved by the World Bank;
25. “**Eligible REDD Country**” mean a Borrowing Member Country that is located in a Subtropical Area or Tropical Area;
26. “**Emissions**” means emissions of carbon dioxide or carbon dioxide equivalents;
27. “**Emission Reductions**” or “**ERs**” means real and verifiable emission reductions generated from Emission Reductions Programs, which include all rights, titles and interests associated with ERs;
28. “**Emission Reductions Program**” means a set of activities by a REDD Country Participant which builds on the activities undertaken pursuant to its Readiness Preparation Proposal with a view to reducing Emissions from deforestation and/or forest degradation;
29. “**Emission Reductions Payment Agreement**” or “**ERPA**” means an agreement governing the acquisition and transfer of Emission Reductions entered into between the Trustee of the Carbon Fund and a REDD Country Participant or an entity approved by a REDD Country Participant;
30. “**Ex Ante Assessment**” means the assessment by an Independent Third Party of an Emission Reductions Program, including its Reference Scenario, before the implementation of the Emission Reductions Program;
31. “**Facility**” means the Forest Carbon Partnership Facility established pursuant to Article 2;
32. “**Facility Management Team**” means a team established by the Bank to manage the Facility as described in Section 14.1;
33. “**Fiscal Year**” means the fiscal year of the Bank, which starts on July 1 and ends on June 30;
34. “**Forest-Dependent Indigenous Peoples and Forest Dwellers**” means Indigenous Peoples and local communities living in forests and depending on forest resources for their livelihoods;
35. “**Fund**” means the Readiness Fund or the Carbon Fund, as the case may be;
36. “**Funds**” means both the Readiness Fund and the Carbon Fund;
37. “**Fund Property**” means all of the property contributed to the Fund and all other assets, receipts and interests of the Fund;

38. “**Grant Agreement for a Readiness Preparation Proposal** or “**Grant Agreement**” means the agreement setting out terms and conditions for disbursement of the grant for support of a Readiness Preparation Proposal.
39. “**General Conditions for the Emission Reductions Payment Agreements**” means a set of standard conditions applicable to all ERPAs, which sets out general rights and obligations of the parties to the ERPA;
40. “**IBRD**” means the International Bank for Reconstruction and Development;
41. “**IDA**” means the International Development Association;
42. “**Indigenous Peoples**” means a distinct, vulnerable, social and cultural group as defined in the World Bank’s Operational Policies and Procedures on Indigenous Peoples;
43. “**Independent Third Party**” means an entity, approved by the Participants Committee for the purpose of undertaking activities, including without limitation, Ex Ante Assessments, ex post monitoring, or Verification for the Emission Reductions Program and where applicable, Additional Benefits, which is independent from the IBRD, the Participant, any body established under the Facility or the entity that hosts the Emission Reductions Program;
44. “**Interim Arrangement**” means the arrangement described in Article 15;
45. “**Minimum Contribution**” means the minimum amount specified in Sections 7.1 or 8.1 to be payable to the relevant Trustee by a Donor Participant or a Carbon Fund Participant, respectively;
46. <sup>2</sup>“**Monitoring System**” means a nationwide monitoring, measuring and verification system, capable of monitoring Emission Reductions against an established Reference Scenario;
47. “**Opening Date of the Carbon Fund**” means the date on which the Trustee commences entering into Carbon Fund Participation Agreements for the Carbon Fund;
48. “**Operational Date of the Carbon Fund**” means the date on which the Trustee declares commencement of operation of the Carbon Fund;
49. “**Opening Date of the Readiness Fund**” means the date described in Section 4.1 (a);
50. “**Operational Date of the Readiness Fund**” means the date described in Section 4.1 (b);

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<sup>2</sup> The definition of “Modified Cash Basis of Accounting” was deleted in accordance with Resolution PC/6/2010/10.

51. “**Operational Date of the Facility**” means the date that the Readiness Fund commences operation;
52. “**Organizational Meeting**” means a meeting of the Participants held pursuant to Section 10.3;
53. “**Participants**” or “**Participants in the Facility**” means collectively, REDD Country Participants, Donor Participants and Carbon Fund Participants;
54. “**Participation Agreements**” means collectively, REDD Country Participation Agreements, Donor Participation Agreements and Carbon Fund Participation Agreements;
55. “**Participants Assembly**” means a body for all Participants described in Article 10;
56. “**Participants Committee**” means the committee described in Article 11;
57. “**Readiness Fund**” means one of the two trust funds established under the Facility to receive funding from Donor Participants to achieve the objectives described in Section 2.1;
58. “**Readiness Package**” means a package of activities designed to support a REDD Country Participant’s capacity to participate in possible future systems of positive incentives for REDD, which include the following elements:
  - (i) A Reference Scenario;
  - (ii) A REDD Strategy; and
  - (iii) A Monitoring System;
59. “**Readiness Preparation Proposal**” means a proposal submitted to the Facility Management Team by a REDD Country Participant, which builds on the Readiness Preparation Proposal Idea Note and details the activities to be undertaken by that country to increase its capacity to address REDD and the Readiness Package;
60. “**Readiness Preparation Proposal Idea Note**” or “**R-PIN**” means the initial proposal submitted to the Facility Management Team by an Eligible REDD Country outlining the basic elements of that country’s proposal for a Readiness Preparation Proposal;
61. “**REDD**” means REDD plus, i.e reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and

enhancement of forest carbon stocks, as may be modified to be consistent with the UNFCCC Guidance on REDD;<sup>3</sup>

62. “**REDD Country Participant**” means an Eligible REDD Country which was selected by the Participants Committee in accordance with Section 6.2 or by the Steering Committee during the Interim Arrangement in accordance with Section 15.1, and that has entered into a REDD Country Participation Agreement;
63. “**REDD Country Participation Agreement**” means an agreement between a REDD Country Participant and the Trustee of the Readiness Fund setting out terms and conditions for the REDD Country’s participation in the Facility;
64. “**REDD Strategy**” means a strategy prepared by the REDD Country Participant describing how the REDD Country Participant intends to reduce Emissions from deforestation and/or forest degradation;
65. “**Reference Scenario**” means a combination of recent historical data on Emissions from deforestation and/or forest degradation and estimated future Emissions resulting from forest carbon stock changes leading to a national scenario through time of Emissions in the absence of additional positive incentives for REDD;
66. “**Relevant International Organization**” means an intergovernmental association of countries, established by and operated according to multilateral treaty, which has experience and expertise in REDD;
67. “**Relevant Non-Governmental Organization**” means a civil society organization or a non-governmental organization that has experience and expertise in REDD or represents interests that are likely to benefit from or be affected by REDD;
68. “**Relevant Private Sector Entity**” means a private company or organization that is not registered as a non-governmental organization that is likely to benefit from or be affected by REDD;
69. “**Shared Costs**” means the costs and expenses incurred in the administration of the Facility which include, but are not limited to, the Participants Assembly, meetings of the Participants Committee, Steering Committee and the activities undertaken by the Facility Management Team for both the Readiness Fund and the Carbon Fund;
70. “**Steering Committee**” means the committee described in Section 15.1;
71. “**Subtropical Area**” means the zones of the Earth immediately north and south of the Tropical Area, which are considered to be roughly between 35° and 23.5° north and south latitudes respectively;

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<sup>3</sup> Amended in accordance with Resolution PC4/2009/1

72. “**Tranche**” means a trust fund established under the Carbon Fund by the Trustee of the Carbon Fund as described in Section 4.2 (b);
73. “**Tranche A of the Carbon Fund**” means ~~the~~ a Tranche of the Carbon Fund which focuses on programs that are expected to generate real, measureable emission reductions verified against relevant international standards, including, where possible, compliance grade standards.
74. “**Tranche A Carbon Fund Participant**” means a Carbon Fund Participant that enters into a Carbon Fund Participation Agreement for Tranche A;
75. “**Tranche B of the Carbon Fund**” means ~~the~~ a Tranche of the Carbon Fund which focuses on programs that are 1) expected to generate real, measureable emission reductions verified against relevant international standards, including, where possible, compliance grade standards; and 2) where such emission reductions generated are subject to restrictions set forth in Section 1.1(76) below;
76. “**Tranche B Carbon Fund Participant**” means a Carbon Fund Participant that enters into a Carbon Fund Participation Agreement, in which the Carbon Fund Participant represents and warrants 1) that the Carbon Fund Participant’s *pro rata* share of ERs will not be used for sale or for compliance purposes and 2) that the Carbon Fund Participant will cancel the ERs it acquires through the Carbon Fund and instruct the Trustee of the Carbon Fund to cancel them in the reporting system maintained by the Trustee or any other emission reduction registry;
77. “**Tropical Area**” means the area bounded by the Tropic of Cancer on the north and Tropic of Capricorn on the south, which lie at 23.5° north and 23.5° south latitudes, respectively;
78. “**Trustees**” means collectively, the Trustee of the Readiness Fund and the Trustee of the Carbon Fund;
79. “**Trustee of the Carbon Fund**” means the Bank acting not in its individual or personal capacity but solely in its capacity as trustee of the Tranches of the Carbon Fund;
80. “**Trustee of the Readiness Fund**” means the Bank acting not in its individual or personal capacity but solely in its capacity as trustee of the Readiness Fund;
81. “**UNCITRAL**” means the United Nations Commission on International Trade Law;
82. “**UNFCCC**” means the United Nations Framework Convention on Climate Change adopted in New York on May 9, 1992;
83. “**UNFCCC Guidance on REDD**” means the body of rules, modalities, procedures and guidelines on REDD that is adopted under the auspices of the UNFCCC;

84. “**UNFCCC Secretariat**” means the Secretariat of the United Nations Framework Convention on Climate Change, located in Bonn, Germany;<sup>4</sup>
85. “**UN-REDD Programme Secretariat**” means the Secretariat of the UN-REDD Programme, a collaborative program of the Food and Agriculture Organization, the United Nations Development Programme and the United Nations Environment Programme on REDD. The UN-REDD Programme aims to help developing countries prepare and implement national REDD strategies and programs and support the development of normative solutions and approaches for REDD under the UNFCCC;<sup>5</sup>
86. “**Verification**” means the periodic ex post assessment by an Independent Third Party, in relation to:
- (i) The monitored Emission Reductions arising from an Emission Reductions Program during a specific period;
  - (ii) The Additional Benefits identified in the Emission Reductions Payment Agreement or any other agreement that were achieved during a specific period in accordance with the terms of the relevant agreement;
87. “**World Bank**” or “**Bank**” means the International Bank for Reconstruction and Development;
88. “**World Bank Group**” means the International Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association and the Multilateral Investment Guarantee Agency;
89. “**World Bank’s Operational Policies and Procedures**” means the operational policies and procedures of the Bank that are applicable to the operation of the Facility;
90. “**World Bank Policy on Disclosure of Information**” means the policy of the World Bank on public availability of information held by it and the material available to the public, effective January 1, 2002, as may be amended from time to time;
91. “**World Bank Standard Conditions for Grants Made by the World Bank Out of Various Funds**” means the standard terms and conditions, dated July 1, 2008, applying to the Bank’s grant agreements under the Bank’s trust funds, as may be amended from time to time.<sup>6</sup>

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<sup>4</sup> Amended in accordance with Resolution PC2008-4

<sup>5</sup> Ibid

<sup>6</sup> The last amendment was on July 31, 2010.

**Section 1.2 Interpretation**

- (a) In this Charter, unless the context requires another meaning, a reference:
  - (i) To the singular includes the plural and *vice versa*, and to a gender includes all genders;
  - (ii) To a law includes any legislation, judgment or rule of law and is a reference to that law as amended, consolidated, supplemented or replaced, and includes a reference to any regulation, by-law or other subordinate legislation; and
  - (iii) To a party means a party to this Charter, and to an item, clause, schedule, section or annexure is to an item, clause, schedule, section or annexure of this Instrument (unless specified otherwise).
- (b) Where a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) Headings are for convenience only and do not affect the interpretation of this Charter.
- (d) The Annex forms part of this Charter.



## **CHAPTER II**

### **ESTABLISHMENT, OBJECTIVES AND PRINCIPLES**

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#### **Article 2. Establishment and Objectives**

##### **Section 2.1 Objectives**

Forest Carbon Partnership Facility is hereby established in accordance with the terms and conditions of this Charter. The objectives of the Facility are:

- (a) To assist Eligible REDD Countries in their efforts to achieve Emission Reductions from deforestation and/or forest degradation by providing them with financial and technical assistance in building their capacity to benefit from possible future systems of positive incentives for REDD;
- (b) To pilot a performance-based payment system for Emission Reductions generated from REDD activities, with a view to ensuring equitable benefit sharing and promoting future large scale positive incentives for REDD;
- (c) Within the approach to REDD, to test ways to sustain or enhance livelihoods of local communities and to conserve biodiversity; and
- (d) To disseminate broadly the knowledge gained in the development of the Facility and implementation of Readiness Preparation Proposals and Emission Reductions Programs.

##### **Section 2.2 Funds under the Facility**

The Facility shall comprise the following two funds to achieve the objectives described in Section 2.1:

- (a) A Readiness Fund; and
- (b) A Carbon Fund.

#### **Article 3 Principles**

##### **Section 3.1 Operating Principles**

The operation of the Facility shall:

- (a) Respect a REDD Participant Country's sovereign right and responsibility to manage its own natural resources while encouraging effective monitoring and implementation of the Readiness Preparation Proposal and Emission Reductions Programs;
- (b) Recognizing the pilot nature of the Facility, follow a "learning by doing" approach;

- (c) Seek to ensure consistency with the UNFCCC Guidance on REDD;
- (d) Comply with the World Bank's Operational Policies and Procedures, taking into account the need for effective participation of Forest-Dependent Indigenous Peoples and Forest Dwellers in decisions that may affect them, respecting their rights under national law and applicable international obligations;
- (e) Build public and private partnerships for REDD among Participants and Relevant International Organizations, Relevant Non-governmental Organizations, Forest-Dependent Indigenous Peoples and Forest Dwellers, and Relevant Private Sector Entities; and
- (f) Maximize synergies with other bilateral and multilateral programs on REDD.

## CHAPTER III

### ORGANIZATION

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#### Article 4 Organization and Dates

##### Section 4.1 Dates for the Readiness Fund

The Trustee of the Readiness Fund shall determine:

- (a) An Opening Date of the Readiness Fund being the date on which the Trustee of the Readiness Fund commences entering into Donor Participation Agreements; and
- (b) An Operational Date for the Readiness Fund being the date on which the Trustee of the Readiness Fund has signed Donor Participation Agreements, representing a sum of at least US\$20 million.

##### Section 4.2 Organization and Dates for the Carbon Fund

(a) The Trustee of the Carbon Fund shall determine:

- (i) An Opening Date for the Carbon Fund being the date on which the Trustee of the Carbon Fund commences entering into Carbon Fund Participation Agreements;
- (ii) An Operational Date for the Carbon Fund being the date on which the Trustee of the Carbon Fund has signed Carbon Fund Participation Agreements, representing a sum of at least US\$40 million; and
- (iii) A Closing Date for the Carbon Fund being the last date on which the Trustee enters into Carbon Fund Participation Agreements.

(b) The Trustee of the Carbon Fund may decide to organize the Carbon Fund in one or more Tranches, in which case each Tranche shall operate as a separate trust fund. The Trustee of the Carbon Fund shall, in consultation with the Participants Committee, define, *inter alia*, the purpose, establishment and terms of participation for each Tranche.

##### Section 4.3 Dates for the Facility

The Facility shall become operational upon the Operational Date of the Readiness Fund.

## **CHAPTER IV**

### **PARTICIPATION**

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#### **Article 5 Participants**

##### **Section 5.1 Types of Participants**

The Facility shall include the following Participants:

- (a) REDD Country Participants;
- (b) Donor Participants; and
- (c) Carbon Fund Participants.

#### **Article 6 REDD Country Participants**

##### **Section 6.1 Eligible REDD Countries**

An Eligible REDD Country may participate in the Facility through the process set out in Section 6.2 below.

##### **Section 6.2 Process for becoming a REDD Country Participant**

- (a) An Eligible REDD Country may submit a Readiness Preparation Proposal Idea Note to the Facility Management Team to apply for participation in the Facility.
- (b) Except for the Interim Period set out in Article 15, an Eligible REDD Country, upon approval of its Readiness Preparation Proposal Idea Note by the Participants Committee, shall enter into a REDD Country Participation Agreement with the Trustee of the Readiness Fund to become a REDD Country Participant.
- (c) The Trustee of the Readiness Fund may, if the Trustee so decides, enter into one or more Grant Agreements to fund a Readiness Preparation Proposal by a REDD Country Participant.

##### **Section 6.3 Development and Implementation of Readiness Preparation Proposal.**

- (a) A REDD Country Participant shall, on the basis of the Readiness Preparation Proposal Idea Note, develop a Readiness Preparation Proposal and submit it to the Facility Management Team for review and approval by the Participants Committee, which shall make a decision on grant allocation for the Readiness

Preparation Proposal in accordance with the criteria and procedures developed by the Participants Committee referred to in Section 11.1(c).<sup>7</sup>

- (b) A REDD Country Participant shall report to the Participants Committee on the progress made with respect to implementation of the Readiness preparation proposal in accordance with the timeframe and requirements set forth in the Grant Agreement or the REDD Country Participation Agreement, as the case may be.
- (c) At any time, a REDD Country Participant may request the Facility Management Team to assist it in developing and implementing the Readiness preparation proposal. Upon such request and subject to the World Bank Operational Policies and Procedures, the Facility Management Team may make an arrangement to provide necessary assistance to that REDD Country Participant.

#### **Section 6.4 Readiness Package, Emission Reductions Program and Emission Reductions Payment Agreement**

- (a) A REDD Country Participant, based on progress in implementing its Readiness Preparation Proposal, may submit its Readiness Package to the Facility Management Team and request the Participants Committee to endorse it.
- (b) The REDD Country Participants whose Readiness Package has been endorsed by the Participants Committee may submit one or more Emission Reductions Programs to the Facility Management Team for consideration by the Carbon Fund Participants in accordance with Article 12. A public or private entity from such a REDD Country Participant may also submit an Emission Reductions Program provided that such entity is approved by the REDD Country Participant.
- (c) If the Emission Reductions Program is selected by the Carbon Fund Participants in accordance with Article 12 and an agreement is reached between the Carbon Fund Participants and the REDD Country Participant with regard to terms and conditions of the transaction, the Trustee of the relevant Tranche(s) of the Carbon Fund, subject to the World Bank's Operational Policies and Procedures, may enter into an Emission Reductions Payment Agreement with the REDD Country Participant or any public or private entity approved by this REDD Country Participant.

#### **Section 6.5 Default in Implementation**

- (a) In addition to anything provided for in the World Bank's Standard Conditions for Grants Made by the World Bank Out of Various Funds, which shall be applicable to the Grant Agreement, if a REDD Country Participant ("**Defaulting REDD Country Participant**"),

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<sup>7</sup> Amended in accordance with Resolution PA/2/2009/2.

- (i) Fails to develop a Readiness preparation proposal in accordance with Section 6.3 within twenty-four (24) months after the date of execution of the Grant Agreement; or
- (ii) Fails to fulfill the obligations set out in the Grant Agreement,

unless the Participants Committee decides otherwise in accordance with Section 11.1 (n), the Defaulting REDD Country Participant will lose all of its rights and privileges rendered in this Charter and its REDD Participation Agreement, including its eligibility to become a member of the Participants Committee, until such time as the default has been remedied to the satisfaction of the Participants Committee and the Trustee of the Readiness Fund. In the case that the Defaulting REDD Country Participant is a member of the Participants Committee, it shall be replaced by another REDD Country Participant nominated by its Constituency.

#### **Section 6.6 Withdrawal**

- (a) A REDD Country Participant may, at any time, withdraw its participation in the Facility, provided at least three (3) months prior written notice is given to the Facility Management Team.
- (b) Upon the withdrawal referred to in subparagraph (a) above, the REDD Country Participation Agreement and the right of the REDD Country Participant in the relevant Grant Agreement to receive the grant that has not been disbursed shall be terminated.
- (c) For the avoidance of doubt, the withdrawal shall not, in any manner, affect effectiveness, implementation and enforcement of the Emission Reductions Payment Agreement entered into between the REDD Country Participant and the Trustee of the Carbon Fund referred to in Section 6.4 (c), which shall survive the REDD Country Participant's withdrawal of its participation in the Facility.

#### **Article 7 Donor Participants**

##### **Section 7.1 Participation and Contribution**

- (a) An Eligible Donor may participate in the Readiness Fund through entering into a Donor Participation Agreement.
- (b) Each Donor Participant will be required to make a Minimum Contribution of US\$5 million to the Readiness Fund.
- (c) A Donor Participant may elect to increase its Contribution payable under Section 7.2 by making one or more Additional Contributions to the Readiness Fund.

### **Section 7.2 Payment of Contribution**

Each Donor Participant shall pay its Contribution to the Readiness Fund in accordance with the terms of the Donor Participation Agreement.

### **Section 7.3 Default in Making Payment**

(a) If, after a Demand for Payment issued by the Trustee of the Readiness Fund, a Donor Participant (the “**Defaulting Donor Participant**”):

(i) Fails to pay the whole or any part of an installment of its Contribution when due; and

(ii) Such failure continues for one (1) month,

the Trustee of the Readiness Fund shall notify the Participants Committee of such default (“**Notification**”) and request the Defaulting Donor Participant to submit a written communication to the Facility Management Team, stating the reasons for the default and the measures being taken to address it.

(b) Unless the Participants Committee decides otherwise, if the default in making payment by a Donor Participant continues for three (3) consecutive months after the Notification, the Defaulting Donor Participant will lose all of its rights and privileges rendered in this Charter and its Donor Participation Agreement, including its eligibility to become a member of the Participants Committee, until such time as the default has been remedied. If the Defaulting Donor Participant is a member of the Participants Committee at the time the default in payment occurs, it shall be replaced by another Donor Participant elected by its Constituency.

(c) If such default continues for six (6) consecutive months after the Notification, the Donor Participant shall cease to be a Participant in the Facility and its Donor Participation Agreement shall terminate.

### **Section 7.4 Withdrawal**

(a) A Donor Participant may, at any time, withdraw its participation in the Facility provided at least three (3) months prior written notice is given to the Facility Management Team.

(b) Upon such withdrawal referred to in subparagraph (a) above, the Donor Participation Agreement shall terminate on the conditions set forth in the Donor Participation Agreement.

## **Article 8 Carbon Fund Participants**

### **Section 8.1 Participation and Contribution**

- (a) An Eligible Prospective Carbon Fund Participant may participate in the Facility through entering into a Carbon Fund Participation Agreement.
- (b) The Minimum Contribution to a Tranche of the Carbon Fund is US\$5 million..
- (c) A Carbon Fund Participant may elect to increase its Contribution to a Tranche of the Carbon Fund by making Additional Contributions to the Tranche of the Carbon Fund up to the Closing Date of the Carbon Fund.

### **Section 8.2 Payment of Contribution**

Each Carbon Fund Participant shall pay its Contribution to a Tranche of the Carbon Fund in accordance with the terms of the Carbon Fund Participation Agreement.

### **Section 8.3 Disclosure of Competing Interests**

- (a) Prior to the meetings of the Carbon Fund Participants to review the relevant Emission Reductions Program (“**Underlying Emission Reductions Program**”), if a Carbon Fund Participant or its affiliate or employee is directly involved in preparing and/or implementing the Readiness Preparation Proposal or the Readiness Package of the REDD Country Participant whose Underlying Emission Reductions Program is under consideration by the Carbon Fund Participants, the Carbon Fund Participant shall disclose such involvement to the Facility Management Team.
- (b) If the Facility Management Team determines that the involvement is such that the Carbon Fund Participant should not participate in the decision by the Carbon Fund Participants on whether or not to object to the Emission Reductions Program, it shall advise the relevant Carbon Fund Participant making the disclosure to recuse itself from the decision by Carbon Fund Participants with respect to the Underlying Emission Reductions Program.
- (c) The Facility Management Team may further develop guidelines on process and procedure on conflict of interest in accordance with Section 14.1(g).

### **Section 8.4 Default in Making Payment**

- (a) If, after a Demand for Payment is issued by the Trustee of the Carbon Fund, a Carbon Fund Participant (“**Defaulting Carbon Fund Participant**”)
  - (i) Fails to pay the whole or any part of an installment of its Contribution when due; and



(ii) Such failure continues for ten (10) Business Days,

the Trustee of the Carbon Fund shall promptly notify the Participants Committee and send a notice (“**Notice**”) in writing to the Defaulting Carbon Fund Participant, requiring such Participant to remedy the default by making payment to the Trustee of the Carbon Fund within 15 Business Days of the date of the Notice, failing which (“**Default**”):

- A. The Defaulting Carbon Fund Participant shall forthwith cease to be a Carbon Fund Participant in the Carbon Fund unless the Participants Committee decides otherwise; and
  - B. Subject to subparagraph (e) below, the rights of the Defaulting Carbon Fund Participant in relation to the Facility shall be limited to those Emission Reductions for which it has made payment but has not received before occurrence of the Default.
- (b) The Trustee of the Carbon Fund shall notify other Carbon Fund Participants in the relevant Tranche of the Default within five (5) Business Days upon occurrence of the Default. Within forty-five (45) Business Days of such notice, any of the other Carbon Fund Participants in the relevant Tranche may notify the Trustee of the Carbon Fund that it intends to purchase the Defaulting Carbon Fund Participant’s interest in the Carbon Fund, for which it shall make payment to the Trustee of Carbon Fund in the amount of the unpaid installment due to the Trustee of the Carbon Fund from the Defaulting Carbon Fund Participant and increase its Contribution to the relevant Tranche of the Carbon Fund to cover the remaining amount of the Contribution of the Defaulting Carbon Fund Participant, for which the Trustee of the Carbon Fund has not drawn against the promissory note in accordance with Section 8.2.
- (c) If more than one Carbon Fund Participant in the relevant Tranche notifies the Trustee of the Carbon Fund of the intention to purchase the Defaulting Carbon Fund Participant’s interest in the Carbon Fund, the Trustee of the Carbon Fund shall allocate the Defaulting Carbon Fund Participant’s interest to those Carbon Fund Participants pro rata to their Contribution to the relevant Tranche of the Carbon Fund, or any other arrangement that may be agreed between and among the Trustee of the Carbon Fund and those interested Carbon Fund Participants. Those Carbon Fund Participants shall then make payments in accordance with subparagraph (b) above.
- (d) If no Carbon Fund Participant in the relevant Tranche notifies the Trustee of the Carbon Fund of such purchase, the Trustee of the Carbon Fund may arrange for a

sale of that interest to a Carbon Fund Participant in the other Tranche of the Carbon Fund or for a private sale of that interest to a person acceptable to the Trustee of the Carbon Fund. Any costs incurred by the Trustee of the Carbon Fund associated with arranging the sale or transfer of the Defaulting Carbon Fund Participant's share shall be borne by the Defaulting Carbon Fund Participant.

- (e) If there is no sale of a Defaulting Carbon Fund Participant's interest in the Carbon Fund within three (3) months of the date of the Notice, the Defaulting Carbon Fund Participant shall thereupon, without any further notice or action by the Trustee of the Carbon Fund, be deemed to have forfeited all of its rights and interest in the Carbon Fund and the Facility, including, without limitation, the right to receive Emission Reductions for which it has made payment but has not received before occurrence of the Default, and the right to receive distribution of the Carbon Fund Property, which it is, or would otherwise be, entitled to receive, and such rights and interest shall thereupon, without any further notice or action by the Trustee of the Carbon Fund, be cancelled.

#### **Section 8.5 No Withdrawal**

Contributions by Carbon Fund Participants to a Tranche of the Carbon Fund are irrevocable.

#### **Section 8.6 Novation**

A Carbon Fund Participant may novate all, but not part, of its interest in a Tranche of the Carbon Fund or any of its rights under the Carbon Fund Participation Agreement or this Charter to an Eligible Prospective Carbon Fund Participant ("**New Party**") with the prior written consent of the Trustee of the Carbon Fund, such consent not to be unreasonably withheld, provided that the New Party agrees, in form and substance acceptable to the Trustee of the Carbon Fund, to be bound by:

- (a) The terms of this Charter; and
- (b) The Carbon Fund Participation Agreement entered into between the Trustee of the Carbon Fund and the New Party.

## CHAPTER V

### GOVERNANCE STRUCTURE

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#### Article 9 Structure

##### Section 9.1 Structure

The Facility shall have:

- (a) A Participants Assembly;
- (b) A Participants Committee;
- (c) Subject to Section 12, [Tranches of the A](#) Carbon Fund;
- (d) One or more Ad Hoc Technical Advisory Panels;
- (e) A Facility Management Team; and
- (f) A Trustee of the Readiness Fund and a Trustee of the Carbon Fund.

#### Article 10 Participants Assembly

##### Section 10.1 Frequency of Meetings and Participation

- (a) An Annual Meeting of the Participants Assembly shall be held each year at a time and place as shall be determined by the Facility Management Team.
- (b) The Eligible REDD Countries, Eligible Donors and Eligible Prospective Carbon Fund Participants, which have expressed interest in participating in the Facility, and representatives of Relevant International Organizations, Relevant Non-governmental Organizations, Forest-Dependent Indigenous Peoples and Forest Dwellers and Relevant Private Sector Entities, may be invited by the Facility Management Team to attend Annual Meetings as observers.
- (c) The Vice President of the Sustainable Development Network of the Bank or his or her representative shall chair Annual Meetings of the Participants Assembly.

##### Section 10.2 Role of the Participants Assembly

- (a) The Participants Assembly:
  - (i) Shall provide general guidance to the Participants Committee. For this purpose, the Chairperson of the Participants Committee shall report to the

Participants Assembly at each Annual Meeting on the decisions made by the Participants Committee and, where appropriate, other issues discussed by the Participants Committee;

- (ii) May review specific decisions made by the Participants Committee with respect to the items referred to in:
  - A. Section 11.1(f) on pricing methodologies for Emission Reductions Payment Agreements;
  - B. Section 11.1(j) on the General Conditions of the Emission Reductions Payment Agreements;
  - C. Section 11.1(k) on the guidelines on Additional Benefits; and
  - D. Section 11.1(l) on evaluation of operation of the Facility.

In its review, the Participants Assembly may overturn the decisions made by the Participants Committee with respect to items specified in subparagraphs A to D above by at least two-thirds majority of REDD Country Participants and two-thirds majority of collectively, the Donor Participants and Carbon Fund Participants, present and voting at the meeting. In the event of such overturn, the Participants Committee shall reconsider its decisions at its next meeting.

- (iii) Shall serve as a forum for exchanging information and sharing knowledge among Participants and observers.
- (b) In addition to subparagraph (a) above, at the Annual Meeting, each Constituency may hold its own or joint Constituency Meeting to discuss matters identified by the relevant Constituency and elect their representatives to the Participants Committee in accordance with the following:
  - (i) REDD Country Participants shall elect their representatives as members of the Participants Committee and shall determine their own criteria and mechanism for such elections;
  - (ii) Donor Participants and Carbon Fund Participants shall jointly elect their representatives as members of the Participants Committee and shall jointly determine their own criteria and mechanism for such elections, taking into account the amount of the Contribution to the Readiness Fund or the Carbon Fund by such individual Participant.

### **Section 10.3 Organizational Meeting**

- (a) Within four (4) months after the Facility has at least three (3) REDD Country Participants and together three (3) Donor Participants and Carbon Fund Participants, the Facility Management Team shall convene an Organizational Meeting of the Participants.
- (b) The date, time and place of the Organizational Meeting shall be determined by the Facility Management Team.
- (c) The Organizational Meeting shall have the same role as the Annual Meeting set out in Section 10.2 above.

#### **Section 10.4 Quorum**

A majority of the REDD Country Participants and a majority of Donor Participants and Carbon Fund Participants, collectively, shall constitute a quorum for the meetings of the Participants Assembly.

### **Article 11 Participants Committee**

#### **Section 11.1 Role of the Participants Committee**

The Participants Committee shall be responsible for:

- (a) Selecting, in accordance with the Criteria for Selection of the REDD Participant Countries set out in the Annex to this Charter and taking into account the recommendations by the Ad Hoc Technical Advisory Panel, an Eligible REDD Country to participate in the Facility by approving the Readiness preparation proposal Readiness Idea Note proposed by such Eligible REDD Country;
- (b) Taking into account the findings and recommendations of the Ad Hoc Technical Advisory Panel that may be established for this purpose in accordance with Article 13, reviewing the Readiness Preparation Proposal submitted by a REDD Country Participant, and providing guidance to the relevant components of the Readiness Preparation proposal.<sup>8</sup>
- (c) Developing the criteria and procedures for grant allocation for Readiness preparation proposals and the criteria and procedures for review of the Readiness Preparation Proposals.<sup>9</sup>
- (d) Making a decision on the grant allocation for preparing the Readiness Package by a REDD Country Participant.<sup>10</sup>

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<sup>8</sup> Amended in accordance with Resolution PC4/2009/1.

<sup>9</sup> Ibid

<sup>10</sup> Ibid

- (e) Upon request by a REDD Country Participant, taking into account the recommendations of the Ad Hoc Technical Advisory Panel that may be established for this purpose in accordance with Article 13, endorsing some or all elements of the REDD Country Participant's Readiness Package;
- (f) Adopting policy guidance on pricing methodologies for Emission Reductions Payment Agreements pursuant to Section 3.1(b);
- (g) In the absence of relevant UNFCCC Guidance on REDD, advising on modalities for determining how to attribute Emission Reductions generated from REDD activities to the provision of REDD incentives;
- (h) In the absence of relevant UNFCCC Guidance on REDD, establishing a list of Independent Third Parties to deliver services related to Emission Reductions Programs and/or other activities undertaken under the Facility;
- (i) On the basis of the recommendations from the Facility Management Team, providing guiding principles on the key methodological framework on REDD;
- (j) Approving the General Conditions of the Emission Reductions Payment Agreements, which set out general rights and obligations of the parties to the agreement;
- (k) On the basis of recommendations from an Ad Hoc Technical Advisory Panel that may be established for this purpose, adopting guidelines on achieving Additional Benefits;
- (l) Evaluating the operation of the Facility in accordance with Section 17.1;
- (m) Approving the establishment of Ad Hoc Technical Advisory Panel(s), to provide technical advice and findings in order to fulfill its functions set out in this Section, including, without limitation, subparagraphs (b) and (d) above;
- (n) Addressing defaults referred to in Sections 6.5, 7.3 and 8.4;
- (o) Approving the Annual Budget of the Readiness Fund and the Shared Costs;
- (p) Reporting to the Participants Assembly at each Annual Meeting on the decisions made by the Participants Committee and, where appropriate, other issues discussed by the Participants Committee; and
- (q) Performing any other functions necessary to facilitate operation of the Facility.

## **Section 11.2 Membership of the Participants Committee**

- (i) Subject to Section 11.2 (b) below, the Participants Committee shall consist of twenty-eight (28)<sup>11</sup> members, among which:
  - (i) Fourteen (14)<sup>12</sup> members shall be from REDD Country Participants; and
  - (ii) Fourteen (14)<sup>13</sup> members shall be collectively from Donor Participants and Carbon Fund Participants, among which the Donor Participants and the Carbon Fund Participants shall collectively determine the number of the members allocated to either group for each term, taking into account the objective of having equal representation of both groups in the Participants Committee.
- (ii) If there are fewer than fourteen (14)<sup>14</sup> REDD Country Participants and fourteen (14)<sup>15</sup> Donor Participants and Carbon Fund Participants together but there are at least three (3) REDD Country Participants and together three (3) Donor Participants and Carbon Fund Participants, the Participants Committee shall comprise all the Participants, provided that there shall be an equal number of members from REDD Country Participants and from Donor Participants and Carbon Fund Participants together.
- (iii) The members of the Participants Committee shall be elected by the respective Constituency:
  - (i) For the first Participants Committee, at the Organizational Meeting in accordance with Section 10.3; and
  - (ii) Subsequently, at each Annual Meeting of the Participants Assembly in accordance with Section 10.2 (b).
- (iv) Elected members of the Participants Committee shall regularly consult with their Constituencies to ensure that the views of the relevant Participants are represented at the meetings of the Participants Committee.
- (v) Elected members of the Participants Committee shall be officers, directors, employees or officials of Participants, provided that not more than one member shall be a representative of the same Participant. Elected members of the Participants Committee who cease to be officers, directors, employees or officials of the Participant which nominated them will no longer be eligible for membership of the Participants Committee and will be replaced in accordance with subparagraph (f) below;

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<sup>11</sup> Amended in accordance with Resolution PC/2009/X/1.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

- (vi) With the exception of the members of the first Participants Committee elected at the Organizational Meeting whose term will expire at the end of the second Annual Meeting following the Organizational Meeting, membership of each Participants Committee will run from the first date after the end of the Annual Meeting at which they were elected, until the end of the following Annual Meeting, unless the member otherwise retires, resigns or is removed in accordance with subparagraph (g) below;
- (vii) Following the retirement, resignation or removal of a member of a Participants Committee, the Participant which nominated that member may appoint another of its officers, directors, employees or officials to fill that vacancy in the relevant Participants Committee. A member appointed to fill a vacancy on a Participants Committee shall be appointed for the unexpired term of the member's predecessor in office.
- (viii) At any time, any member of a Participants Committee may be removed by the Participant for which such member is a representative and replaced with another representative of that Participant for the unexpired term of the member's predecessor in office.
- (ix) Unless the Participants Committee decides otherwise, the Vice President of the Sustainable Development Network of the Bank or his or her representative shall chair the meetings of the Participants Committee.

### **Section 11.3 Meetings of the Participants Committee**

- (a) The Participants Committee shall meet, at least twice a year, or at any other frequency as may be deemed necessary by the Participants Committee, provided at least 14 days' written notice by the chairperson of the Participants Committee or the Facility Management Team is given to each member of that Participants Committee and observers to the Participants Committee, stating the matters to be considered and the place, date and time of the meeting.
- (b) Members of a Participants Committee may participate in that Participants Committee meeting:
  - (i) In person;
  - (ii) By telephone or other communications facilities as permit all members participating in the meeting to hear each other; or
  - (iii) By other electronic means;

and a member of a Participants Committee participating by such means set out in subparagraphs (ii) and (iii) above shall be deemed for the purposes of this Charter to be present at that meeting.



- (c) With the exception of the case referred to in subparagraph (d) below, no member of any of the Participants Committees shall receive any compensation from the Facility for its services as such, nor shall any member of any of the Participants Committees be entitled to payment or reimbursement from the Facility or the Facility Management Team for travel or other costs incurred in attending Participants Committee meetings.
- (d) For the members of the Participants Committee who are from a REDD Country Participant, funding from the Readiness Fund may be made available for covering the expenses of such members' travel and accommodation incurred in attending the meetings of the Participants Committee. Such expenses shall be reimbursed in accordance with the World Bank's policies for travel. Similar arrangements may be made for the observer from the Forest-dependent Indigenous Peoples and other Forest Dwellers referred to in Section 11.7 (b).

#### **Section 11.4 Voting**

- (a) Each member of the Participants Committee shall be entitled to cast one vote.
- (b) The members of the Participants Committee shall make every effort to make decisions by consensus. If all efforts to reach consensus have been exhausted, and no decision has been made, decisions shall be taken by two-thirds majority of the members present and voting at the meeting.

#### **Section 11.5 Quorum**

A majority of the members of the Participants Committee from REDD Country Participants and a majority of the members of the Participants Committee from Donor Participants and Carbon Fund Participants together shall constitute a quorum for the meetings of the Participants Committee.

#### **Section 11.6 Conflict of Interest**

- (a) If a member of the Participants Committee who is a Donor Participant or a Carbon Fund Participant or that member's affiliate or employee, is directly involved in the preparation and implementation of the Readiness Preparation Proposal and/or the Readiness Package (together "**REDD Activities**") of the REDD Country Participant whose application or REDD Activities are under consideration by the Participants Committee, such member of the Participants Committee shall disclose such involvement to the Facility Management Team and the Participants Committee.
- (b) If the Participants Committee determines the existence of conflict of interest due to the involvement referred to subparagraph (a) above, such member of the

Participants Committee shall recuse himself or herself from participating in any decision related to this Country's REDD Activities.

- (c) A member of the Participants Committee from a REDD Country Participant shall recuse himself or herself from taking part in any decisions related to that country's activities undertaken pursuant to relevant provisions of this Charter, including, without limitation, matters related to its Readiness Preparation Proposal and grant allocation referred to in Section 11.1(b) and (c) and endorsement of some or all elements of its Readiness Package referred to in Section 11.1 (d).
- (d) The Facility Management Team may further develop guidelines on the process and procedures on conflict of interest for considerations by the Participants Committee in accordance with Section 14.1(g).

#### **Section 11.7 Observers to the Participants Committee**

- (a) Participants that are not members of the Participants Committee may attend the meetings of the Participants Committee as observers.
- (b) One representative from Relevant International Organizations, one representative from Relevant Non-Governmental Organizations, one representative from Forest-Dependent Indigenous Peoples and Forest Dwellers and one representative from Relevant Private Sector Entities, one representative from the UN-REDD Programme and one representative from UNFCCC Secretariat,<sup>16</sup> will be invited to attend the meetings of the Participants Committee as observers without voting rights to any decision by the Participants Committee.
- (c) The respective groups of Relevant International Organizations, Relevant Non-Governmental Organizations, Forest-Dependent Indigenous Peoples and Forest Dwellers and Relevant Private Sector Entities will determine, on the basis of the proposal from the Facility Management Team, as appropriate, a process for selecting their representatives for participating as observers in the meetings of the Participants Committee.
- (d) Subject to the rules of procedures referred to in Section 11.8, the observers to the Participants Committee may express their views on issues under discussion but without voting rights to any decision by the Participants Committee.

#### **Section 11.8 Rules of Procedures**

The Facility Management Team shall prepare rules of procedures for meetings of the Participants Committee setting out *inter alia* meeting arrangements and participation by

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<sup>16</sup> Amended in accordance with Resolution PC2008-4.

observers to the meetings of the Participants Committee, for consideration and adoption by the Participants Committee.

**Article 12 ~~Tranches of the Carbon Fund~~**

**Section 12.1 Tranches**

The Carbon Fund shall be organized in Tranches, with each Tranche operating as a separate trust fund, as described in Section 4.2(b).

**Section 12.2 Carbon Fund Meetings and Tranche Meetings of the Carbon Fund**

~~(a) A Carbon Fund Meeting shall be a meeting of all Carbon Fund Participants, which shall discuss and make decisions on issues related to the Carbon Fund, except for Tranche specific decisions, in accordance with the arrangement set forth in Section 12.4, except for those Tranche-specific issues referred to in Section 12.4(b).~~

~~(a) —~~

~~(b) Without prejudice to subparagraph (a) above, a meeting of the Tranche of the Carbon Fund may be convened by the Trustee of the Carbon Fund, as appropriate, to discuss and make Tranche-specific decisions in accordance with the arrangement set forth in Section 12.4, and to carry out Tranche specific activities including the following:~~

~~Where there is no consensus by all Carbon Fund Participants in a Carbon Fund Meeting, review Emission Reductions Programs prepared by REDD Country Participants or their authorized entities and submitted by the Facility Management Team, with the assistance of an Ad Hoc Technical Advisory Panel as deemed necessary by the Carbon Fund Participants;~~

~~Where there is no consensus by all Carbon Fund Participants in a Carbon Fund Meeting, select one or more Emission Reductions Programs for the respective Tranche of the Carbon Fund from a REDD Country Participant whose Readiness Package has been endorsed by the Participants Committee;~~

~~Provide guidance to the Trustee of the Carbon Fund on issues relating to specific Emission Reductions Payment Agreements for the respective Tranche of the Carbon Fund;~~

~~Approve business plans and annual budgets, including the costs specific to the Tranche, for the respective Tranche of the Carbon Fund proposed by the Facility Management Team; and~~

~~Any other functions necessary to facilitate the operation of the respective Tranche of the Carbon Fund.~~

~~(b)~~(c) The Carbon Fund Meeting shall meet at least once a year, or at any other frequency as may be deemed necessary by the Trustee.

~~(e)~~(d) Carbon Fund Participants may participate in a Carbon Fund Meeting and ~~a~~ their respective Tranche Meeting:

(i) In person;

(ii) By telephone or other communications facilities which permit all Carbon Fund Participants participating in the meeting to hear each other; or

(iii) By other electronic means;

and a Carbon Fund Participant participating by such means set out in subparagraphs (ii) and (iii) above shall be deemed for the purposes of this Charter to be present at that meeting and shall be entitled to cast a vote by such means set out in subparagraphs (ii) and (iii).

### Section 12.3 Quorum

(a) ~~Two-thirds~~ Majority of Carbon Fund Participants from each Tranche, counted based both on the number of Carbon Fund Participants and the amount of Contribution to the Carbon Fund, shall constitute a quorum for the Carbon Fund Meetings.

(b) Two-thirds of Carbon Fund Participants in a relevant Tranche, counted based both on the number of Carbon Fund Participants in that respective Tranche and the amount of Contribution to that respective Tranche of the Carbon Fund, shall constitute a quorum for a meeting of the Tranche of the Carbon Fund.

### Section 12.4 Voting by the Carbon Fund Participants

The Carbon Fund Participants shall make every effort to make all decisions by consensus at the Carbon Fund Meeting referred to in Section 12.2(a). If all efforts at consensus have been exhausted and no consensus has been reached, the following arrangement shall be applied to decision making.

(a) Decisions at the Carbon Fund Meeting by ~~all~~ the Carbon Fund Participants

If all efforts to reach consensus have been exhausted, such decisions shall be made by a double simple majority of the votes cast by the Carbon Fund Participants. For avoidance of doubt, a double simple majority means a simple majority of votes (more than 50% of the votes) ~~(50% of the votes + 1 vote)~~ and such votes shall be counted on the basis of both:

(i) one vote per Carbon Fund Participant and

(ii) one vote per US\$1,000,000 (US\$ one million) of the Contribution to the Carbon Fund.

(b) Decisions at the Tranche Meeting by the Carbon Fund Participants ~~in a relevant Tranche~~

A Tranche ~~M~~meeting may be convened, as provided for in Section 12.2(b), for a Tranche of the Carbon Fund for issues relating to, ~~but not limited to the following:~~

- (i) The inclusion of Emission Reduction Programs in the portfolio of a Tranche (if no consensus is reached at the Carbon Fund meeting);
- (ii) The decisions on entering into Emission Reduction Payment Agreements for Tranche-specific Emission Reduction Programs, and decisions to revise, extend or cancel these Emission Reduction Payment Agreements;
- (iii) Budget approval for these Tranche-specific Emission Reduction Program design and supervision costs;

(iv) Decisions regarding the establishment of ad hoc Technical Advisory Panels for the Tranche-specific Emission Reduction Programs; and

~~(iv)(v)~~ Other matters specifically related to, and necessary to facilitate, the operation of the Tranche, provided that the Carbon Fund Participants at a Carbon Fund Meeting have determined, in accordance with Section 12.4(a), that such matters are in fact specifically related to the relevant Tranche of the Carbon Fund. ~~Other matters specifically related to, and necessary to facilitate, the operation of the Tranche.~~

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The Carbon Fund Participants in the respective Tranche shall make every effort to make all decisions by consensus at the Tranche Meeting. These decisions shall be made by consensus of the Carbon Fund Participants in the respective Tranche. If all efforts to reach consensus have been exhausted and no consensus has been reached, such decisions shall be made by double two-thirds majority of the votes cast by the Carbon Fund Participants in the respective Tranche. For avoidance of doubt, a double two-thirds majority means two-thirds of the votes counted on the basis of both:

- (i) one vote per Carbon Fund Participant in the respective Tranche
- (ii) one vote per US\$1,000,000 (US\$ one million) of the Contribution to the respective Tranche

### Section 12.5 Action Without Meeting

Action required or permitted to be taken at a Carbon Fund Meeting or Tranche Meeting may be taken without a meeting if:

(a) a form of consent in writing, setting out the action intended to be taken, has been circulated to all of the Carbon Fund Participants or all of the Carbon Fund

Participants in a relevant Tranche, as appropriate, for which the meeting was called; and

- (b) the consent under Section 12.5 (a) has been signed and delivered to the Trustee in one or more counterparts by: (i) a double simple majority of Carbon Fund Participants in the case of decisions listed in Section 12.4(a); (ii) a double two thirds majority of Carbon Fund Participants in a relevant Tranche for the decisions listed in Section 12.4(b); or (iii) all Carbon Fund Participants in the case of an action requiring unanimous approval. ~~all Carbon Fund Participants or all of the Carbon Fund Participants in the relevant Tranche, as appropriate, for which the meeting was called.~~

#### **Section 12.6 Proxy**

A Carbon Fund Participant may vote by proxy if a duly executed proxy has been received in writing by the Trustee for verification prior to the meeting.

#### **Section 12.7 Observers**

The Carbon Fund Meetings ~~and the Tranche Meetings~~ of the Carbon Fund Participants may be open to participation by observers, as set forth in the rules of procedures referred to in Section 12.8

#### **Section 12.8 Rules of Procedures for Carbon Fund Meetings and Tranche Meetings**

The Trustee of the Carbon Fund shall develop rules of procedures on *inter alia* the conduct, voting procedures and participation, for Carbon Fund Meeting, and where necessary, meetings of the Tranches of the Carbon Fund. The rules of procedures for the Carbon Fund Meeting shall be adopted by consensus of the Carbon Fund Participants, and for the meetings of the Tranche by consensus of the Carbon Fund Participants in the relevant Tranche.

#### **Article 13 Ad Hoc Technical Advisory Panels**

- (a) One or more Ad Hoc Technical Advisory Panels may be established by various bodies under the Facility including the Participants Committee or the Facility Management Team, for the purpose of providing technical advice and information to these bodies; and
- (b) Each Ad Hoc Technical Advisory Panel shall be independent, impartial and proportionate to the tasks being undertaken. The Facility Management Team shall establish a roster of experts and propose members of an Ad Hoc Technical Advisory Panel, and their terms of reference for consideration and approval by the body that establishes the panel in accordance with subparagraph (a) above.

**Article 14 Administration**

**Section 14.1 Facility Management Team**

A Facility Management Team under the Facility is hereby established by the Bank to be responsible for the day-to-day operation of the Facility and the size of the Facility Management Team shall be proportionate to its functions, which shall include:

- (a) Conducting the initial review of a Readiness preparation proposal Readiness Idea Notes submitted by Eligible REDD Countries. Such initial review will be focused on completeness and accuracy of the information;
- (b) Proposing Criteria for Grant Allocation for Preparing and Implementing the Readiness preparation proposal and the budget for a REDD Participant Country in preparing and implementing the Grant Agreements;
- (c) Upon request by a REDD Country Participant referred to in Section 6.3 (c), making arrangements for assisting the REDD Participant Country to develop and implement its Readiness preparation proposal;
- (d) Where applicable, supervising implementation of the Grant Agreements and Emission Reductions Payment Agreements;
- (e) Conducting the initial review of Emission Reductions Programs submitted by REDD Country Participants. Such initial review will be focused on completeness and accuracy of the information. Once deemed complete, the Emission Reductions Programs would be submitted by the Facility Management Team for consideration by the relevant Carbon Fund Participants in accordance with Section 12.2;
- (f) Proposing members and terms of reference for Ad Hoc Technical Advisory Panels;
- (g) Developing, as appropriate, guidelines on conflict of interest referred to in Section 8.3 and Section 11.6 for consideration and adoption by the Participants Committee;
- (h) Providing secretariat service to the meetings held under the Facility;
- (i) Monitoring provision of Ex Ante Assessment and Verification services for Emission Reductions Programs;
- (j) Coordinating with relevant international bodies to ensure effective operation of the Facility;

- (k) Seeking to ensure the Facility's operation in compliance with the relevant World Bank Group' Operational Policies and Procedures;
- (l) Providing reports on the activities of the Facility to the Board of Executive Directors of the Bank and to the Participants;
- (m) Collecting, organizing, managing and disseminating the knowledge and information gained through operation of the Facility;
- (n) Proposing Annual Budget for the Readiness Fund, Annual Budget for the Carbon Fund and the Shared Costs;
- (o) Arranging for appropriate independent evaluation of the Facility in accordance with Article 17; and
- (p) Any other function that may be deemed necessary for facilitating operation of the Facility.

**Section 14.2 Trustee of the Readiness Fund and Trustee of the Carbon Fund**

- (a) The Bank shall be the Trustee of the Readiness Fund and the Trustee of the Carbon Fund.
- (b) The Trustee of the Readiness Fund and the Trustee of the Carbon Fund shall have the following powers and duties. The powers and duties of the Trustee of the Readiness Fund and the Trustee of the Carbon Fund shall be subject to this Charter, the Participation Agreements and the relevant World Bank's Operational Policies and Procedures. For the purpose of this Section, any reference to the "Trustee", "Fund" or "Fund Property" refers to each or both of the Readiness Fund and the Carbon Fund, as the case may be:
  - (i) The Trustee shall hold the Fund Property in trust and manage and use the Fund Property for the purpose of, and in accordance with this Charter;
  - (ii) The Contributions to the Funds shall be administered by the Trustee on behalf of Donor Participants and Carbon Fund Participants in accordance with the terms of the Charter, the relevant Donor Participation Agreement and the Carbon Fund Participation Agreement (together as "**Agreements**"). The Trustee shall be responsible only for performing those functions specifically set forth in the Agreements and shall not be subject to any other duties or responsibilities to the Donor Participant or the Carbon Fund Participant, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Agreement shall be considered a waiver of any privileges or immunities of the Trustee



under the Articles of Agreement of the Bank or any applicable law, all of which are expressly reserved.

- (iii) The Trustee shall keep the Fund Property separate and apart from the assets of the World Bank Group but may commingle it for investment purposes with other trust fund assets maintained by the World Bank Group. At its discretion, the Trustee may at any time exchange any funds received from a Participant or any other Fund Property for one or more other currencies in order to facilitate the administration of the Fund;
- (v) The Trustee is authorized to enter into relevant Participation Agreements, which in the case of the Readiness Fund, refers to the REDD Country Participation Agreements and Donor Participation Agreements, and in the case of the Carbon Fund, refers to Carbon Fund Participation Agreements. Participation Agreements shall be in form and substance satisfactory to the Trustee. The Trustee shall not be authorized to recognize more than one person joining together as a joint Participant;
- (vi) The Trustee is authorized to accept Contributions in the required amount from Donor Participants in the case of the Readiness Fund and Carbon Fund Participants in the case of the Carbon Fund. The Trustee shall use the Contributions and income earned from the investment of such Contributions pending disbursement solely for the purposes set out in this Charter;
- (vii) The Trustee is authorized to perform all acts and enter into all contracts as it shall deem necessary or desirable to accomplish the purposes of the Fund;
- (viii) The Trustee is authorized to invest Fund Property pending disbursement in such manner as it may decide. All the income from such investments shall be credited to, and used exclusively for the purposes of, the Fund. Any investment loss shall be debited to the Fund Property. Without limiting the foregoing, the Trustee shall have the power to invest Fund Property in such securities, instruments and other obligations as are authorized investments for other trust fund assets maintained by the World Bank Group or retain Fund assets in cash; from time to time to change the investments of the assets of the Fund; and to exercise any and all rights, powers and privileges of ownership or interest in respect of any and all such investments of any kind and description, including, without limitation, the right to consent and otherwise act with respect thereto, with power to designate one or more individuals, firms, associations or corporations to exercise any of said rights, powers and privileges in respect of any of said instruments. The Trustee shall not be limited to investing in obligations maturing before the possible termination of the

Facility, nor shall the Trustee be limited by any law limiting the investments which may be made by fiduciaries;

- (ix) To ensure the efficient operation of the Fund's cash management and investment transactions, the Trustee shall have the power to borrow from commercial banks and other financial institutions, for periods of up to thirty days, in any currency or currency unit;
- (x) The Trustee shall have the power to incur and pay any reasonable costs or expenses which in its opinion are necessary or desirable to carry out any of the purposes of the Fund, and to make payments from Fund Property to itself as Trustee to the extent provided in this Charter;
- (xi) The Trustee shall have the power to collect all property due to the Fund and to pay all claims against Fund Property. The Trustee shall have the power to engage in and to prosecute, defend, compromise, abandon, or adjust, by arbitration, or otherwise, any actions, suits, proceedings, disputes, claims, and demands relating to the Fund, and out of the Fund Property to pay or to satisfy any debts, claims or expenses incurred in connection therewith, including those of litigation, and such power shall include without limitation the power of the Trustee to dismiss any action, suit, proceeding, dispute, claim, or demand, derivative or otherwise, brought by any person, including a Participant in its own name or the name of the Fund, whether or not the Facility or the Trustee may be named individually therein or the subject matter arises by reason of business for or on behalf of the Fund;
- (xii) The Trustee shall have the power to: (A) employ or contract with such individuals or persons as it may deem desirable to conduct the business of the Fund; (B) enter into joint ventures, partnerships and any other combinations or associations; (C) subject to the terms of this Charter, elect and remove such officers and appoint and terminate such agents or employees of the Facility as it considers appropriate; (D) purchase and pay for out of Fund Property, to the extent available on commercially reasonable terms, such insurance as the Trustee deems desirable to protect it, the Bank, the Participants and any other individual or person entitled to indemnification by the Fund;
- (xiii) The Trustee may from time to time appoint or otherwise engage one or more banks or trust companies or other financial institutions to serve as escrow agent(s) on behalf of the Fund in respect of Fund Property that may be deposited into an escrow account pending disbursement;
- (xiv) Except as otherwise provided in this Charter, the Trustee shall have the exclusive power to conduct the business of the Fund and carry on its operations wheresoever the Trustee deems necessary, proper or desirable

in order to promote the interests of the Fund. Any determination made by the Trustee in good faith as to what is in the interests of the Fund shall be conclusive. In construing the provisions of this Charter, the presumption shall be in favor of a grant of power to the Trustee. The enumeration of any specific power herein shall not be construed as limiting the aforesaid power. Such powers of the Trustee may be exercised without order of or resort to any court or other authority;

- (xv) Nothing in this Charter shall preclude the Bank from acting for its own account and from entering into or being interested in any contract or transaction with any person, including, but not limited to, any Participant, with the same rights as it would have had if it were not acting as the Trustee, and the Bank need not account for any profit therefrom;
  - (xvi) Any power, duty or discretion to be exercised by the Trustee pursuant to the terms of this Charter shall, unless otherwise provided, be exercised by the Trustee in its sole discretion.
- (c) Without prejudice to Section 14.2(b), the Trustee of the Carbon Fund shall have the following additional powers and duties:
- (i) To enter into ERPAs and make payments in accordance with such ERPAs;
  - (ii) To monitor the delivery of Emission Reductions achieved by each Emission Reductions Program to Carbon Fund Participants; and
  - (iii) To maintain a register of Emission Reductions, accounting for all Emission Reductions purchased on behalf of the Carbon Fund Participants.

## CHAPTER VI

### INTERIM ARRANGEMENT

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#### Article 15 Interim Period

##### Section 15.1 Steering Committee

- (a) During the period between the Operational Date of the Facility and before the establishment of the Participants Committee in accordance with Article 11 (“**Interim Period**”), a temporary Steering Committee shall be established by the Facility Management Team to perform the functions of the Participants Committee set out in Section 11.1, in particular, to select Eligible REDD Countries to participate in the Facility in accordance with Section 6.2, and to approve the Criteria for Grant Allocation for a Readiness Preparation Proposal.
- (b) The Steering Committee shall comprise all Donor Participants, Carbon Fund Participants and REDD Country Participants and the Eligible REDD Countries that have expressed interest in participating in the Facility and that are invited by the Facility Management Team to participate in the Steering Committee. To avoid any conflict of interest, any such Eligible REDD Country shall not participate in any decision relating to its own participation in the Facility. In inviting the Eligible REDD Countries to participate in the Steering Committee, the Facility Management Team will take into account geographic balance of representation of the Eligible Countries.
- (c) The members of the Steering Committee shall make every effort to make decisions by consensus. If all efforts at consensus have been exhausted, and no agreement has been reached, decisions shall be taken by two-thirds majority of the members present and voting at the meeting. Each member shall be entitled to cast one vote.

##### Section 15.2 Termination of the Interim Arrangement

The Interim Arrangement shall cease to exist at the time that the Participants Committee is established at the Organizational Meeting in accordance with Section 10.3 (a).

## **CHAPTER VII**

### **REPORTING AND EVALUATION**

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#### **Article 16 Reporting**

##### **Section 16.1 Annual Progress Reports**

No later than fourteen (14) days prior to each Annual Meeting of the Participants Assembly, the Facility Management Team will provide annual progress reports to Participants regarding the activities of the Facility for the previous Fiscal Year.

##### **Section 16.2 Other Documentation**

Subject to compliance with the Bank's Policy on Disclosure of Information, the Facility Management Team shall make the following documents available to the Participants and to the public:

- (a) Readiness preparation proposal Idea Notes for those Eligible REDD Countries that have been selected as REDD Country Participants, Readiness preparation proposal Readiness, Grant Agreements, reports on implementation of Grant Agreements and any other information submitted by REDD Country Participants;
- (b) Reports and conclusions of the Participants Committee;
- (c) Information on Emission Reductions Programs selected by the Carbon Fund Participants of respective Tranche referred to in Section 12.2;
- (d) Where appropriate, findings and advice from the Ad Hoc Technical Advisory Panels established under the Facility in accordance with Article 13;
- (e) Information on good practices and lessons of experience learned through operation of the Facility; and
- (f) Any other information as deemed appropriate by the Facility Management Team.

#### **Article 17 Evaluation of the Operation of the Facility**

##### **Section 17.1 Time and Scope of Evaluations**

- (a) The Facility shall be subject to periodic evaluation on effectiveness of its operation. The first review shall take place no later than two years after the Facility is declared operational in accordance with Section 4.2. Thereafter the Participants Committee shall determine the frequency of the evaluation.

- (b) The scope of evaluations shall be determined by the Participants Committee and shall include, without limitation, an assessment of the effectiveness of the governance structure of the Facility and the operational effectiveness of the Readiness Fund and the Carbon Fund.

**Section 17.2 Process for Evaluation**

The evaluation referred to in Section 17.1 shall be conducted by an independent third party, including the Bank's Independent Evaluation Group in line with rules of that group.

## CHAPTER VIII

### FINANCIAL MATTERS

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#### Article 18 Currency and Financial Statements

##### Section 18.1 Currency

- (a) Both the Readiness Fund and the Carbon Fund shall be denominated in United States Dollars (“**Holding Currency**”).
- (b) Notwithstanding the foregoing, the Trustee may, at its discretion, establish accounts under the Funds denominated in currency other than the Holding Currency.
- (c) Upon receipt of a Contribution in a currency other than the Holding Currency, the relevant Trustee may convert such funds into the Holding Currency.

##### Section 18.2 Financial Statements

- (a) The Readiness Fund and each of the Tranches of the Carbon Fund shall have separate records and ledger accounts.
- (b) Once the Participants are granted access to the World Bank’s Trust Funds Donor Center secure website, the Trustee shall furnish to the Participants current financial information relating to receipts, disbursements and fund balance in the holding currency of the Fund via the World Bank’s Trust Funds Donor Center secure website. The Trustee shall promptly notify Participants once access to the World Bank’s Trust Funds Donor Center secure website has been granted. Within six (6) months after all commitments and liabilities under the Fund have been satisfied and the Fund has been closed, the final financial information relating to receipts, disbursements and fund balance in the holding currency of the Fund shall be made available by the Trustee to the Participants via the World Bank’s Trust Funds Donor Center secure website.<sup>17</sup>
- (c) The Trustee shall provide to the Participants, within six (6) months following the end of each Bank fiscal year, the annual single audit, comprising (i) a management assertion together with an attestation from the World Bank’s external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole; and (ii) a combined financial statement for all trust funds together with the World Bank’s external auditor’s opinion thereon. The cost of the single audit shall be borne by the World Bank.<sup>18</sup>

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<sup>17</sup> Amended in accordance with Resolution PC/6/2010/10.

<sup>18</sup> Ibid.

- (d) If a Participant wishes to request, on an exceptional basis, a financial statement audit by the World Bank's external auditors of the Fund, the Participant and the Trustee shall first consult as to whether such an external audit is necessary. The Trustee and the Participant shall agree on the appropriate scope and the terms of reference of such audit. Following agreement on the scope and the terms of reference, the Trustee shall arrange for such external audit. The costs of any such audit, including the internal costs of the Trustee with respect to such audit, shall be paid by the requesting Participant.<sup>19</sup>

### **Section 18.3 Emission Reductions Statements**

- (a) The Trustee of the Carbon Fund shall maintain a separate account of the Emission Reductions accruing to the Carbon Fund Participants in the respective Tranche of the Carbon Fund, provide statements of such accounts to the Carbon Fund Participants in the respective Tranche, and allocate a pro rata share of the Emission Reductions to each Carbon Fund Participants in the respective Tranche.

## **Article 19 Expenses**

### **Section 19.1 Budget and Cost Sharing**

- (a) The Readiness Fund and the Carbon Fund shall have separate budgets. Subject to subparagraph (b) below, all the costs and expenses incurred in the administration of:
  - (i) The Readiness Fund, including grants disbursed to the REDD Country Participants in accordance with the Grant Agreements and supervision of Grant Agreements by the Bank, shall be borne by the Readiness Fund; and
  - (ii) The Carbon Fund jointly (Common Costs) shall be borne by the Carbon Fund Participants of the Carbon Fund. All the costs and expenses incurred for a specific Tranche only shall be borne by the Carbon Fund Participants of that respective Tranche. The Common Costs shall be borne by the Carbon Fund Participants in each Tranche of the Carbon Fund based on the pro rata share of the capitalization of each of the Tranches as of March 31 each year, unless the Carbon Fund Participants decide otherwise. If one of the Tranches of the Carbon Fund buys a proportion of the emission reductions to arise from an ER Program that differs from its pro rata share of the total capitalization of the Carbon Fund as of March 31 in the preceding year by 5% or more, the ER Program costs shall be apportioned between the Tranches based on their respective shares in that ER Program.
- (b) Unless the Participants Committee decides otherwise, the Readiness Fund shall bear 65% of the Shared Costs and the Carbon Fund shall bear 35% of the Shared Costs.

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<sup>19</sup> Ibid.



## **Section 19.2 Expenses**

- (a) Subject to Section 19.1, the respective Fund Property of the Readiness Fund and the Carbon Fund may be used to pay or reimburse the Facility Management Team, the respective Trustee of the Funds or any other person, including the Bank, for all costs and expenses incurred in the administration of the Facility, including but not limited to:
- (i) All costs incurred in connection with the activities of the Fund Management Team and the respective Trustee of the Funds;
  - (ii) Costs of office space and facilities, equipment and software purchase, office moves, equipment and supplies and services, development and implementation of applications applicable to the work of the Facility, share of depreciation and operating expenses of existing and new system infrastructure developments as used and required by the Facility, including, without limitation, the cost of utility services;
  - (iii) Communication expenses, including, without limitation, mailing, telephone, video conferences, couriers, diplomatic pouch, and facsimile expenses;
  - (iv) Salaries, benefits, travel, accommodation and subsistence, representation and hospitality expenses of all personnel performing services in respect of the Facility, including, without limitation, the costs in connection to application of the Bank's Operational Policies and Procedures;
  - (v) Expenses for documentary and other relevant requirements, including fees relating to the UNFCCC regime or any other regime, and any verification or other processes;
  - (vi) Any payments required by the UNFCCC regime or any other regulatory bodies;
  - (vii) Any compensation and expenses of any consultant, agent, adviser, intermediary, contractor or subcontractor engaged by the Facility Management Team and the Trustees;
  - (viii) Costs of any insurance policies, financial transactions and any other financial and risk management instruments, obtained in connection with, or on behalf of, the Facility, Participants or other persons;
  - (ix) Costs of legal, accounting, treasury, auditing and other professional services;
  - (x) Public relations and representation costs; and

- (xi) Cost of contract printing, publishing costs, internet web site development and maintenance, printing supplies, publication distribution, press conferences, trade shows and expositions, all Facility meeting expenses including facility and equipment hire, interpretation and translation expense, costs associated with communication with the media, including education and training of the media in the work of the Facility, cost of advertising, publicity and marketing the Facility to Participants and others.
  
- (b) In order to simplify recovery of costs and expenses, the Trustees may recover some or all overhead related costs using standard overhead cost recovery rates based on a suitable cost driver as determined by the Trustees and communicated to the Participants in a cost recovery policy. The Trustees will also utilize the Bank cost allocation systems and chargeback mechanisms to simplify and assure efficiency in cost recovery processes.

## CHAPTER IX

### INDEMNIFICATION

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#### Article 20 Indemnification

##### Section 20.1 Indemnification of Facility Management Team, Trustees and Bank

- (a) The privileges and immunities accorded to the Bank shall apply to the Fund Property of each Fund, archives, operations and transactions of the Facility. Nothing in this Charter shall be considered to be a waiver of any privileges and immunities of the Facility Management Team, Trustees, the Bank, or where applicable, the Participants or their respective officers, employees or agents, under the Articles of Agreement of the Bank or any applicable law, all of which are expressly reserved.
- (b) The Facility Management Team, the Bank, and any person who is, or has been, an officer, employee or agent of the Bank or the Facility Management Team (each an **"Indemnified Party"**) shall be indemnified out of Fund Property against any loss, liability, cost, claim, action, demand or expense (including, but not limited to, all reasonable costs, charges and expenses paid or incurred in disputing or defending any of the foregoing) which any Indemnified Party may incur or which may be made against any of them (or in respect of any act or omission of a delegate or agent of the Fund Management Team, the Bank or the Facility) arising out of or in connection with the Facility's activities (including, without limitation, any such claims arising from Participants' actions or failure to act pursuant to this Charter or to realize the value of or provide to the Carbon Fund Participants Emission Reductions), except as may result from the Bank's or the Facility Management Team's gross negligence or willful misconduct.
- (c) Section 20 (b) shall apply to the Trustee of the Readiness Fund and the Trustee of the Carbon Fund except that indemnification of each Trustee is limited to the Fund Property of the respective Fund.
- (d) This indemnity is in addition to any indemnity permitted by law.

##### Section 20.2 No Personal Liability

- (a) The liability of the Facility Management Team and the Bank is limited to the Trustee's ability to be indemnified from the Fund Property.
- (b) The liability of a Donor Participant or a Carbon Fund Participant, as the case may be, is limited to the amount, if any, which remains unpaid in relation to the relevant Participant's Participation Agreement.

**Section 20.3 No Duty of Investigation**

No individual or person dealing with the Facility Management Team, Trustees or any officer, employee or agent of the Facility Management Team, Trustees or the Facility shall be bound to make any inquiry concerning the validity of any transaction purported to be made by the Facility Management Team, the relevant Trustee or by said officer, employee or agent or be liable for the application of money or property paid, loaned to or delivered to or on the order of the Facility Management Team, Trustees or of said officer, employee or agent. Every obligation, contract, instrument, certificate or undertaking, and every other act or thing whatsoever executed in connection with the Facility, shall be conclusively presumed to have been executed or done by the executors thereof only in their capacity as officers, employees or agents of the Trustees or the Facility.

**Section 20.4 Reliance on Experts**

The Facility Management Team, Trustees and each officer and employee of the Trustees or the Facility (together "**Relevant Bank Staff**") shall, in the performance of its duties, be fully and completely justified and protected with regard to any act or any failure to act resulting from reliance in good faith upon the books of account or other records of the Facility, upon an opinion of counsel, or upon reports made to the Facility by any of its officers or employees or by any accountant, auditor, appraiser or other expert or consultant selected with reasonable care by the Relevant Bank Staff.

## CHAPTER X

### AMENDMENT; DURATION; TERMINATION

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#### Article 21 Amendment

##### Section 21.1 Amendment Procedure

- (a) Subject to Section 21.1(b) and (c) below, this Charter may only be amended by the Bank with the prior unanimous consent of the Participants Committee, provided that all other Participants that are not members of the Participants Committee at the time the amendment is adopted are notified and there is no objection from any such Participant within thirty (30) days after the notification is issued by the Facility Management Team.<sup>20</sup>
- (b) Notwithstanding subparagraph (a) above, the Bank may amend this Charter:
  - (i) without prior notice to or consent from any Participant if such amendment is to supply any omission, or cure, correct or supplement any manifest error or ambiguous, defective or inconsistent provision hereof; or
  - (ii) in consultation the Participants Committee if for any other purpose such amendment does not adversely affect the rights of any Participant;provided in any case that all Participants are notified of any such amendment within fifteen (15) days after the effective date of such amendment.
- (c) Without prejudice to subparagraphs (a) and (b) above, the Bank may amend:
  - (i) provisions under Article 1, Article 11 and the Annex to this Charter, with unanimous consent of all members of the Participants Committee; and
  - (ii) provisions under Article 12 with unanimous consent of all Carbon Fund Participants.

#### Article 22 Termination

##### Section 22.1 Dates of Termination of the Funds and the Facility

Subject to Sections 22.2 and 22.3,

- (a) The Readiness Fund shall be terminated on December 31, 2020;
- (b) The Carbon Fund shall be terminated on December 31, 2020; and

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<sup>20</sup> Amended in accordance with Resolution PA/2/2009/2.

- (c) The Facility shall be terminated upon termination of both Funds referred to in subparagraphs (a) and (b) above.

**Section 22.2 Early Termination of the Facility**

Notwithstanding anything in Section 22.1, the Facility shall terminate upon the occurrence of one or more of the following, whichever shall be the earliest:

- (a) The unanimous written consent of all Participants; or
- (b) Resignation of the Bank as Trustee for the Readiness Fund and the Carbon Fund.

**Section 22.3 Early Termination of the Readiness Fund**

Notwithstanding anything in Sections 22.1 and 22.2, the Readiness Fund shall terminate upon the occurrence of one or more of the following, whichever shall be the earliest:

- (a) Failure within eighteen (18) months of the Opening Date of the Readiness Fund to have signed one or more Donor Participation Agreements, representing a sum set out in Section 4.1 (b) (ii) for the operation of the Facility;
- (b) Failure within 24 months of the Operational Date of the Readiness Fund to have signed any REDD Country Participation Agreement;
- (c) By unanimous vote of all the Donor Participants; or
- (d) Resignation of the Bank as the Trustee of the Readiness Fund.

**Section 22.4 Early Termination of the Carbon Fund**

- (a) Notwithstanding anything in Sections 22.1 and 22.2, the Carbon Fund shall terminate upon the occurrence of one or more of the following, whichever shall be the earliest:
  - (i) Failure to declare operation of the Carbon Fund by the Trustee of the Carbon Fund within 36 months of the Opening Date of the Carbon Fund; and
  - (ii) By unanimous vote of the Carbon Fund Participants; or
  - (iii) Resignation of the Bank as the Trustee of the Carbon Fund.
- (b) A Tranche of the Carbon Fund may be terminated by a unanimous vote of the Carbon Fund Participants in that respective Tranche. In the event of termination of a Tranche, such termination will not affect the operations of the other Tranche of the Carbon Fund.

**Section 22.5 Effect of Early Termination of One Fund**

In the event of termination of the Readiness Fund or the Carbon Fund, as the case may be, pursuant to Section 22.3 or Section 22.4:

- (a) The termination of a Fund will not affect the operation of the other Fund in the Facility;
- (b) Article 24 will apply to the winding up and management of the Fund Property of the Fund being terminated.

**Article 23 Extension of Term**

**Section 23.1 Extension of Term for the Facility**

On or before termination of the Facility, the Participants may decide to continue the business of the Facility by unanimous vote of all the Participants, provided that, the Trustee will continue to serve as trustee of the Readiness Fund and/or the Carbon Fund, only if the Board of Executive Directors have expressly agreed to the extension and to the terms of such extension.

**Section 23.2 Extension of Term for the Readiness Fund or Carbon Fund**

- (a) Notwithstanding Section 23.1, the REDD Country Participants and Donor Participants, by unanimous consensus of those participants, may decide to continue the business of the Readiness Fund, in which case this Charter shall be amended by unanimous consent of those participants.
- (b) Notwithstanding Section 23.1, the Carbon Fund Participants, by unanimous consent, may decide to continue the business of the Carbon Fund, in which case this Charter shall be amended by unanimous consent of those participants.

Provided, in both subparagraphs (a) and (b) above, the Trustee will continue to serve as trustee of the Readiness Fund and/or the Carbon Fund, as the case may be, only if the Board of Executive Directors have expressly agreed to the extension and to the terms of such extension.

**Article 24 Post Termination**

- (a) Following the termination of the Facility or one of the Funds in the Facility under Article 22:
  - (i) The Trustee for the respective Fund shall carry on no business for the Fund except for the purpose of winding up its affairs;
  - (ii) The Trustee shall proceed to wind up the affairs of the respective Fund, and all of the powers of the Trustee under this Charter shall continue until the affairs of the Fund shall have been wound up;

- (iii) In the case of the Readiness Fund, the Trustee of the Readiness Fund shall, upon termination of the Readiness Fund, return to the Donor Participants on a pro rata basis any remaining balance of the Contributions of the Donor Participants that is not committed by the Trustee of the Readiness Fund or the IBRD, including without limitation, under Grant Agreements and/or any other agreement with any consultant or other third parties for the purpose of the Readiness Fund.
  - (iv) Any Grant Agreement that is effective at the time of the termination of the Readiness Fund shall continue to be effective in accordance with the provisions in that Grant Agreement.
  - (v) In the case of the Carbon Fund, after paying or adequately providing for the payment of all liabilities under ERPAs into which a Tranche of the Carbon Fund has entered, and upon receipt of such releases by the REDD Country Participant or their entity which is the party to the relevant ERPA, indemnities and refunding agreements as it may deem necessary for its own protection, the Trustee of the Carbon Fund shall distribute the remaining Carbon Fund Property in cash or in kind, or a combination of both, among the Carbon Fund Participants in the relevant Tranche of the Carbon Fund on a pro rata basis; and
  - (vi) Notwithstanding subparagraph (v) above, in the event the remaining Carbon Fund Property includes the right to acquire Emission Reductions to be generated after the termination date of the Carbon Fund, the Trustee shall, subject to any applicable restrictions under international law, national law or otherwise, including regulations under the UNFCCC and/or the Kyoto Protocol, endeavor to make such arrangements as are necessary to effect a transfer of those rights to or to the order of the relevant Carbon Fund Participants entitled to them, but shall not have any liability to the Carbon Fund Participants if it is unable to do so.
- (b) Any rights, interests or entitlements to be transferred under Section 24 (iii) and (v) may be assigned in writing by the Donor Participant or the Carbon Fund Participant, as the case may be, entitled to receive them to a third party, in which case the Trustee will endeavor to transfer those interests, rights or entitlements to that third party at the cost of the relevant Participant entitled to them, but will not be liable to such Participant if it is unable to do so.



## **CHAPTER XI**

### **DISPUTES, ARBITRATION AND REMEDIES**

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#### **Article 25 Disputes and Claims**

##### **Section 25.1 Trustee of the Carbon Fund Withdrawal from Dispute or Claim**

- (a) In order to avoid any potential conflict of interest between the Bank and the Trustee of the Carbon Fund, and notwithstanding any other provision of this Charter, the Trustee of the Carbon Fund shall not have any obligation to prosecute, defend, compromise, negotiate, abandon or adjust, by arbitration, or otherwise, any action, suit, proceeding, dispute, claim or demand or any default or potential default by any party under or in connection with any ERPA.
- (b) If the Trustee of the Carbon Fund determines that it will refrain from taking any such action, the Trustee shall so notify the relevant Carbon Fund Participants, and the Trustee of the Carbon Fund and those Participants shall use their best efforts to endeavor to agree to satisfactory arrangements for dealing with such matter including the assignment and transfer of all or part of the Trustee of the Carbon Fund's rights and obligations under the relevant ERPA to the relevant Carbon Fund Participants, or to a third party acting on their behalf.
- (c) The Trustee of the Carbon Fund shall have no liability to the Carbon Fund Participants as a result of the Trustee of the Carbon Fund's determination to refrain from taking any such action or as a result of the failure of the Trustee of the Carbon Fund and the Carbon Fund Participants to reach such satisfactory arrangements in a timely manner or otherwise.

#### **Article 26 Arbitration**

##### **Section 26.1 Arbitration**

- (a) Any dispute between the relevant Trustee of one or both Funds and a Participant arising out of or relating to this Charter or such Participant's Participation Agreement shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force.
- (b) The number of arbitrators shall be three.
- (c) The appointing authority shall be the Secretary-General of the Permanent Court of Arbitration at The Hague.
- (d) In the event of a conflict between the UNCITRAL Arbitration Rules and the terms of this Charter or of the Participation Agreement, the terms of this Charter and the Participation Agreement shall prevail.

- (e) The language of the arbitration shall be English.

**Section 26.2 Delays**

- (a) No delay in exercising, or failure to exercise, any right, power or remedy accruing to any party under this Charter or any agreement between the relevant Trustee and a Participant, whether or not upon any default, shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default.
- (b) No action of such party in respect of any default, or any acquiescence by it in any default, shall affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

**Article 27 Disclosure**

**Section 27.1 Disclosure of Agreements**

The Trustees may disclose this Charter, any Participation Agreement, any other agreements entered into by the Bank as Trustee of the relevant Fund and information with respect to the Funds in accordance with the Bank's Policy on the Disclosure of Information.

## Annex

### Criteria for Selection of the REDD Country Participants

- **Being an Eligible REDD Country**, which is
  - (i) A Borrowing Member State of the IBRD or IDA; and
  - (ii) Located in the Tropical Area or Sub-tropical Area.
- **Relevance of Country in the REDD context:**

Priority should be given to countries with following characteristics:

  - (i) Significant area and carbon stock of forest;
  - (ii) High relevance of forests in the economy of a country including relevance for poverty reduction, the livelihoods of forest-dependent indigenous peoples and other forest dwellers, and clarification of land tenure regimes livelihoods;
  - (iii) Current deforestation or forest degradation rates, or countries whose forest cover is under significant current or projected deforestation or degradation pressure; and
  - (iv) Proposal that demonstrates approach to REDD that is inclusive.
- **Quality of the R-PIN:**

Evaluation of the quality of the R-PIN should be based on the following criteria:

  - (i) Ownership of the proposal by both the government and relevant stakeholders.
  - (ii) Coherence between national and sectoral strategies and proposed REDD Strategy;
  - (iii) Completeness of information and data provided;
  - (iv) Clear responsibilities for the execution of REDD activities to be financed; and
  - (v) Feasibility of proposed activities to reduce deforestation and forest degradation and their likelihood of success.
- **Geographic and Biome Balance:**

A balanced approach should be used to take into account country proposals from different continents and from the main biomes and that coverage is sufficient to have confidence in the lessons learned.
- **Variety of approaches:**

Consideration should be given to approaches that can contribute to the learning objective of the FCPF, by selecting country proposals that:

- (i) Propose innovative and/or comprehensive strategies/programs and approaches on how to tackle deforestation and degradation;
- (ii) Focus on innovative and/or advanced concepts of monitoring, reporting and remote sensing, including for forest degradation, biodiversity protection and social benefits;
- (iii) Propose to test new mechanisms and distribution methods of REDD revenues; and
- (a) Provide regionally important leadership in addressing REDD or in certain technical areas relevant to Readiness; and/or (v) demonstrate approaches that are inclusive and focus on REDD in combination with poverty reduction, livelihood enhancement, and/or land tenure rights, including alternative forest sector or other governance arrangements.