

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

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

July 12, 2012

(Revised from June 23, 2012 version)

This note proposes Process Guidelines for the Carbon Fund of the Forest Carbon Partnership Facility (FCPF). It builds on and clarifies information provided in the Information Memorandum of the FCPF and in the document entitled "Operating Arrangements under the Carbon Finance Mechanism: Issues Note", dated February 9, 2011. These Process Guidelines can be expanded and revised from time to time, based on the requirements of the Carbon Fund.

Background

1. The February 9, 2011 Issues Note on the Operating Arrangements under the Carbon Finance Mechanism (hereafter referred to as "Issues Note") laid out a process for the creation of emission reductions based on 19 steps ('Emission Reduction Creation Process').¹
2. During the technical discussion held by video conference on September 1-2, 2011, Carbon Fund Participants (CFPs) and Observers discussed the submission of Emission Reduction Program Idea Notes (ER-PINs) as the first step in the Emission Reduction (ER) Creation Process.
3. Based on questions raised during this discussion at the second meeting of the Carbon Fund (CF2) in Berlin, the FMT presented the processing steps from ER-PIN to Emission Reductions Payment Agreement (ERPA) and requested the CFPs to provide guidance on various questions.
4. Since there was insufficient time to discuss all issues during CF2, it was agreed that the FMT would prepare a questionnaire based on the Facility Management Team (FMT) presentation for CFPs and Observers to provide written comments.
5. Based on the comments received, the processing steps were revised and recirculated to CFPs, who discussed them at the third and fourth meetings of the Carbon Fund (CF3 in Asunción, Paraguay and CF4 in Santa Marta, Colombia). Building on all comments and discussion, this note proposes process guidelines that build on and clarify the Emission Reduction Creation Process as outlined in Section 2 of the Issues Note. Once these process guidelines have been agreed by the CFPs, in the event of a

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

discrepancy between the agreed process guidelines and the Issues Note, the agreed process guidelines would prevail.

6. Annex 1 to this note presents the integral comments provided by CFPs and Observers in their responses to the questionnaire, outcomes of the CF3 and CF4 discussions, and how these comments are addressed in the revised process guidelines presented below.

Overview of main clarifications compared to the Issues Note

7. The proposed process guidelines follow the Emission Reduction Creation Process in the Issues Note as closely as possible, while clarifying some of the language and condensing steps where possible.

8. The main clarification involves defining the respective purposes of the ER-PIN and the ER Program Document. The purposes, although already referred to in the Issues Note, have been clarified and it is proposed that:

- i. The ER-PIN is the first document to be presented to the Carbon Fund and is the basis for the decision on inclusion in the pipeline;² and
- ii. The submission of the ER Program Document is considered as the formal submission of the ER Program to the Carbon Fund and the ER Program Document, together with other related documents and requirements, is the basis for the CFPs' decision of whether to proceed to ERPA negotiations.

9. Further details on the comments received and the resulting changes are provided in Annex 1 to this note.

Emission Reduction Creation

The creation of emission reductions in the FCPF Carbon Fund consists of the steps below. Note that the steps are not necessarily sequential.

The availability of Carbon Fund documents as mentioned in all the steps above is determined in accordance with the World Bank's Access to Information Policy.

ER-PIN presentation

² Selection of an ER-PIN equates to its inclusion in the pipeline. But a program is not officially included in the Carbon Fund portfolio until an ERPA is signed. Inclusion in the pipeline does not necessarily mean that an ERPA will be signed.

1. An ER-PIN should be proposed from an FCPF REDD Country Participant that has signed its Readiness Preparation Grant Agreement, using the ER-PIN template. An ER-PIN can be presented during predefined 'windows' by a REDD Country Participant, through its authorized representative (e.g., its national REDD+ committee), or by another entity authorized to propose the ER Program on behalf of the REDD Country Participant. The World Bank Regional staff and/or FMT may support a REDD Country Participant in developing its ER-PIN and conduct due diligence in these countries, using funds allocated by the CFPs for this purpose.³

ER-PIN review

2. The FMT and/or World Bank Regional staff verifies that the ER-PIN meets the following requirements:
- i. The ER-PIN template has been duly completed;
 - ii. The entity proposing the ER Program is from an FCPF REDD Country Participant and authorized to propose the ER Program. The REDD Country Participant's national REDD+ Focal Point, or relevant authorized representative if applicable, issues an interim written approval for the proposed ER Program in accordance with national procedures.⁴ The interim written approval shall confirm that:
 - a. The REDD Country Participant endorses the proposed ER Program and its consideration for inclusion in the FCPF Carbon Fund; and
 - b. The entity that is proposing the ER Program—whether it be the national government or another entity authorized by the national government—is authorized to submit the proposal.
 - iii. The proposed ER Program, based on the information provided in the ER-PIN, has the potential to meet the ER-PIN selection criteria as determined by the CFPs (see Box 1 below); and

³ The World Bank conducts its due diligence throughout the development of the proposed ER Program as required by the applicable Operational Policies and Procedures (e.g., its review of environmental and social aspects, sector and country issues, risks, etc.) in accordance with standard internal procedures.

⁴ The interim written approval will later be replaced by a formal letter of approval ('Letter of Approval') to be issued by the national authority finally assigned with the responsibility to approve ER Programs in accordance with national law and regulations, as well as national REDD+ management arrangements.

- iv. The information provided in the ER-PIN is consistent with the information provided in the Readiness Preparation Proposal ('R-PP') and/or readiness progress reports of the REDD Country Participant, as appropriate.

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

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

3. The World Bank regional staff and/or the FMT liaises with the REDD Country Participant or the authorized entity, as applicable, to clarify any issues and provide informal feedback on the proposed ER Program.

4. If the proposed ER Program meets the requirements listed in step 2, the FMT posts the ER-PIN on the FCPF website, forwards it to the CFPs, and arranges for its translation into English if necessary.

Inclusion in the pipeline

5. Based on the FMT's review of the ER-PIN and other relevant comments received, the CFPs in each Tranche shall, during predefined 'windows', decide whether or not to include the proposed ER Program in their respective Tranche's pipeline. CFPs decide:

- i. to include the ER-PIN in their Tranche's pipeline, and allocate a financial envelope not to exceed \$650,000 unless otherwise agreed by the CFPs (subject to a signed Letter of Intent) to develop the ER-PIN into an ER Program Document that will be the basis for a possible ERPA in the future, and to support the conduct of due diligence by World Bank regional staff and/or FMT. These funds will be managed by the World Bank regional staff and/or FMT, including on behalf of the country or entity;
- ii. to allocate budget up to \$200,000⁵ to support revisions to the ER-PIN, with a view to the ER-PIN being considered for inclusion in the pipeline (signature of a Letter of Intent) at a later stage. These funds will be managed by the World Bank regional staff and/or FMT, including on behalf of the country or entity; or
- iii. not to include the ER-PIN. ER-PINs not included may still be modified and presented again in a subsequent batch.

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

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

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

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

ER Program Document submission

8. The FCPF Participants Committee (possibly using the assistance of a TAP) endorses the Readiness Package from the REDD+ Country Participant that is hosting the ER Program.⁶
9. The REDD Country Participant or its authorized entity continues to develop the ER Program, based on inputs received from various parties, as appropriate, and, subject to the endorsement above, submits the ER Program to the Carbon Fund by sending its ER Program Document to the FMT. The FMT posts the ER Program Document on the FCPF website, forwards it to the CFPs, and arranges for its translation into English if necessary.
10. The CFPs may request the FMT or an Ad Hoc TAP to assist them in reviewing specific aspects of the ER Program Document.⁷
11. Based on the information available to date, which may include the FCPF Participants Committee's endorsement of the country's Readiness Package, the final ER Program Document, the World Bank's due diligence, and technical, financial and legal information (e.g., business model, information about the legal and beneficial title or rights to the respective Emissions Reductions), the CFPs of the respective Tranche(s) decide whether to proceed to negotiating an ERPA for the proposed ER Program.

ERPA negotiation

12. Based on the Pricing/Valuation Approach and the General Conditions for ERPAs, as endorsed by the FCPF Participants Committee, the Trustee drafts an ERPA for the included ER Program, which is sent to the REDD Country Participant and/or authorized entity and the CFPs of the respective Tranche(s).
 - i. To the extent possible, the Tranche(s) will only commit to contract and pay for a fraction of the ER potential of the ER Program, leaving room for interested entities to participate in one or more additional transactions (ERPAs). Such transaction(s) could include CFPs from either Tranche and/or entities from outside of the Carbon Fund negotiating one or more separate ERPA(s);

⁶ The PC is currently defining the modalities of such endorsement based on an assessment of the country's progress towards REDD+ readiness.

⁷ These aspects would be specified in the Terms of Reference for the TAP, but may include, for example: i) consistency with Readiness progress; ii) consistency of the ER Program with the selection criteria as determined by the CFPs; iii) consistency of the ER Program with the Carbon Fund methodological framework; iv) feasibility/risk assessment of the ER Program; and v) estimate of the emission reduction potential.

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

13. The REDD Country Participant or its authorized entity and the respective Tranche(s) of the Carbon Fund come to an agreement on the terms of the ERPA. In the ERPA negotiation process, the respective Tranche(s) of the Carbon Fund may choose to select one or more CFP representatives to help negotiate the terms of the ERPA while the Trustee would help facilitate such negotiations.

ERPA signature and inclusion in portfolio

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

Annex 1

Compilation of views expressed on the different steps and questions in the questionnaire sent out after CF2

1. This Annex provides an overview of the views expressed on the different steps and questions in the questionnaire sent out after CF2. The steps cited at the beginning of each section below represent the way the emission reduction creation process was presented during CF2 and so do not necessarily follow the updated process as presented in the main section of this note.

2. The last column of each table ('Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines') explains how views are reflected in the updated process, and so refers to the paragraph numbering used in the main section of this note.

Step 1. A REDD Country Participant (through its authorized representative, e.g., its national REDD+ committee or responsible institution) submits an ER Program to the FMT, using the ER Program Idea Note (ER-PIN) template

3. The question was raised if the Carbon Fund would consider ER-PINs in batches (i.e., submission through (predefined) windows) or one by one as they are submitted. Factors to be taken into account include how the Fund's portfolio can best be managed to create learning value and reduce risks:

- i. Submission of ER-PINs in 'windows' to be able to compare proposals;
- ii. An ER-PIN is allowed to be submitted whenever the grant agreement has been signed and the country is ready to submit (in this case, is it acceptable for countries to submit similar ER Programs or are there suggestions for achieving diversity in the portfolio?).

4. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	Prefer to review ER-PINs in batches - allows for comparison and more efficient (including in using TAP). Useful for Carbon Fund meetings to continue to have presentations from REDD country participants on early ideas for ER programs. This helps to facilitate learning and could be helpful to inform decisions around issues such as Carbon Fund business processes.	At CF3, CFPs discussed two options: allowing ER-PINs to be submitted at any time, or during predefined 'windows'. CFPs noted that each country has unique conditions, but that there is value in
BP	Support having submission windows around twice a year, so there is sufficient time for the CF to review submissions before	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	another batch is submitted. The quality of submissions against the required criteria should be the threshold for inclusion more so than diversity.	being able to compare several proposals at once. As such, it was agreed that, to the extent possible, CFPs will review ER-PINs in batches rather than on a rolling basis, to be able to compare ER-PINs against each other. There could potentially be three batches per year (such frequency could address concerns that reviewing in batches could cause delays), corresponding to Carbon Fund meetings, and submission deadlines for each meeting will need to be set.
CDC Climat	In principle, they should be examined one by one in order to avoid delays. However, the fund participants could decide to wait and examine several ER-PINs at the same time if it is expected that there will be a short period of time between their respective submission	
Costa Rica	<p>Las revisiones deberían ser uno a uno, ya que las condiciones de los países son muy diferentes. Es importante crear experiencia que faciliten el camino a otros países, para esto es importante un portafolio diversificado, estas propuestas no son comparables, aunque se puede establecer un standard de calidad del PIN.</p> <p>Deberia al menos estar firmado el grant agreement y tener un plan de trabajo de SESA establecido. Además, se debe saber cual sería la base para diversificar el portafolio: Nacional/subnacional, pueblos indígenas, iniciativas privadas, comunidades locales, etc.</p>	
EC	<p>We agree. Submission of ER-PINs in ‘windows’ to be able to compare a few proposals in a comparable, competitive yet holistic manner. Designing credible reference levels (RL) and monitoring the anthropogenic emissions and removals from forests is challenging and is likely to remain so in most REDD+ countries. We therefore encourage a broad assessment of relevance, progress and performance (as defined in the R-Package), including indicators beyond carbon, related to national capacities for governance, enforcement and monitoring of drivers and forest management (including degradation and biodiversity indicators). In other words we think progress in phase 2 should be assessed as progress in:</p> <ul style="list-style-type: none"> • collecting the information (reliable forest and socio economic data, including the confidence margins attached to these raw datasets) needed for designing credible RL for emissions in phase 3; • collecting the information on how REDD+ action policy approaches and positive incentives respect the guidance and safeguards as set out in paragraphs 1 and 2 of Appendix I of Decision 1/C.P.16; • addressing the drivers of deforestation and degradation, 	<p>Step 1 reflects that ER-PINs can be submitted during predefined ‘windows’. Related to this, step 5 states that CFPs will decide their interest in pre-defined ‘windows’. Comment from FOE, CIEL and Global Witness on link with readiness process has been included as optional requirement in step 2 iv.</p>

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>and progress in promoting sustainable land use;</p> <ul style="list-style-type: none"> • processing (and consulting stakeholders on the basis of) this information; • taking and implementing cross sectoral decisions that target the most significant drivers. 	
FOE, CIEL and Global Witness	<p>The CF should review ER-PINS in batches and seek diversity to maximize learning. Submissions should be able to demonstrate strong links to readiness activities and an emerging national REDD strategy, and this should be a criteria for ER-PIN selection by CF Tranches. Countries should therefore be advised to wait until sufficient progress has been made in developing a REDD strategy before submitting an ER-PIN. (Please also see additional comments regarding the sequencing of ER-PIN submission)</p>	
Germany	<p>What we would encourage is:</p> <ul style="list-style-type: none"> - Early proposals but entry criteria that ensure that only countries with a good chance to get their R-Package endorsed hand in proposals – ambitious ER-PIN Template - More proposals than CF can absorb (to be able to “choose”), but not more proposals than the CF can assess at appropriate costs - A procedure that avoids “rushed” proposals and doesn’t set incentives to prepare ER-PINs as quick as possible – would be an argument for “windows” <p>Maybe a way to go is that ER-PINs can be presented at any time and all received ER-PINs that comply with all formal criteria (step 2) are put on the FCPF website. However, the ER-PINs are only reviewed by CF participants (step 5) at 3-4 predetermined dates in batches, e.g. December 2012, December 2013, December 2014 and December 2015.</p> <p>Ensure diversity by allowing only one ER-PIN per country per ‘window’.</p>	
Norway	<ul style="list-style-type: none"> - We support having windows to be able to compare 	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>submissions. This should be set times of the year, e.g., three times of year, with a good lead time before discussion among CF Participants. If only one submits, this should still be considered.</p> <ul style="list-style-type: none"> - While diversity and learning value should be promoted by the fund we do not see this as a strict requirement. We believe country circumstances will necessarily differ, and that no pre-screening of 'diversity' is needed before discussions in the CF. - We support early submissions from countries that have progressed with readiness, and believe signature of a grant agreement to be a reasonable cut-off. That being said, we would expect ER programs to link clearly to the RPP and the emerging national REDD+ strategy/framework, and countries should be advised not to submit until they can demonstrate this. 	
Private Sector	Support batches approach	
USA	<p>As diversity is one of the goals of the Carbon Fund, we feel it would be easier to review proposals submitted in batches, which would allow for a comparison of approaches, quality, etc. If ER-PINS are to be submitted at a fairly early stage and will not be linked to financial commitments, it may be expected that many more proposals will be submitted than will ultimately be accepted, making comparison even more important. Perhaps countries could be encouraged to give an early indication if they propose to submit an ER-PIN in a given period (calendar year), and specific windows could then be identified for accepting and reviewing submissions.</p> <p>Related question: Should countries that have not requested a Readiness Preparation Grant be allowed to apply to the Carbon Fund (for example, if they completed readiness activities and intend to meet the requirements of the R-Package through self-funding, bilateral grants, or UN-REDD support)? If so, linking submission of the ER-PIN to the</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	Readiness Preparation Grant Agreement is not appropriate.	

Step 2. The FMT verifies that the proposed ER Program meets the following requirements:

- a. The ER-PIN template has been duly completed;**
- b. The entity submitting the ER Program is from an FCPF REDD Country Participant and authorized to submit the ER Program. If an ER Program is submitted by another entity than the national government, the FMT verifies that the submitting entity is authorized by the national government;**
- c. The proposed ER Program meets the ER Program selection criteria described in Section on Types of Emission Reductions Programs , or as determined by the Carbon Fund Participants.**

5. The question was raised that if one of the requirements is that the entity submitting the ER Program is from an FCPF REDD Country Participant and authorized to submit the ER Program, how will the FMT verify this requirement if the ER-PIN is not submitted by the FCPF REDD+ focal point?

6. It was suggested that a REDD Country Participant could issue a formal letter of approval for any ER-Program, including authorization of the submitting entity. However if this was the case, it would need to be clarified:

- i. Who should issue the Letter of Approval (for example the agency authorized for this in the national REDD+ management arrangement);
- ii. When such a letter should be submitted: together with the submission of the ER-PIN or at a later stage (for example at the time a Letter of Intent is signed).

7. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	Require letter of authorization at the time the ER-PIN is submitted (avoids potential contractual challenges down the track and requires at least some national government involvement/consultation from the outset, which in itself is a	At CF3, there was consensus that an ER-PIN should be submitted by the

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>learning opportunity). Letter of Approval should come from (at minimum) the national office delegated responsibility for REDD+ by the executive government (or most appropriate on case by case basis). Suggest another requirement is added – the FMT verifies that the REDD country participant has a signed R-PP grant agreement in place (this ensures WB due diligence for the R-PP is completed).</p>	<p>national government or by another body clearly endorsed by the national government. Such authorization should be part of the ER-PIN submission.</p>
BP	<p>It seems reasonable that a formal letter from the REDD Focal Point or delegated body should be required and submitted at this step, as part of the FMTs completeness check. It is unclear what the benefits of waiting until a later step would be.</p>	<p>In step 1, an ER-PIN can be submitted by a REDD Country Participant's authorized</p>
CDC Climat	<ul style="list-style-type: none"> • Yes, there should be a formal letter • The letter should be issued by the focal point for REDD • The letter could be issued at a later stage, but no later than step 4 	<p>representative (e.g., its national REDD+ committee) or by another entity authorized to</p>
Costa Rica	<p>El R-program a someter debe ser parte de ER-PIN final aprobado, aunque deberá ser presentado luego que el R-Program sea aprobado y además contar con una carta de aprobación del ente oficial designado por el Gobierno.</p>	<p>propose the ER Program on behalf of the REDD Country Participant. In step 2</p>
EC	<p>We think the R-Package (which in our view starts a process towards requirements for the third phase of REDD+) is a national framework that should be submitted, independently reviewed and assessed by participants and observers before the ER-PIN are submitted from a Country. Furthermore, the actions proposed in the ER-PIN should be framed by the R-Package and specifically by the national REDD+ strategy. It should inter alia ensure that the entity submitting the ERP operates in a clear tenure framework where the benefits and liabilities can clearly be affected to the right holders, and that affected populations can access an effective and responsive recourse mechanism if needed. If monitoring is considered at sub-national level, it should demonstrate how it contributes and nests into the national monitoring system.</p>	<p>ii, the FMT performs a first check to confirm that this is the case, by confirming that the REDD Country Participant's authorized representative has issued a written approval for the proposed ER Program.</p>
FOE, CIEL and Global	<p>To answer this question at the country or jurisdictional level, REDD Country Participants will need clarity on tenure and rights arrangements. All relevant rights holders must be</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Witness	<p>involved in the process of submitting an ER-PIN and their rights, including their right to Free, Prior, Informed, Consent (FPIC), fully respected.</p> <p>If this step is taking place before the evaluation of the R-Package, it may be difficult to ascertain who has rights to enter in to ERPA or submit an ER-PIN.</p>	
Germany	<p>Yes, we would support the requirement of a formal letter of approval to be presented at ER-PIN submission, issued by the national FCPF REDD+ Focal Point.</p> <p>Question: What happens if the FMT decides that the ER-PIN does not meet the selection criteria? Will there be a formal rejection with stated reasons? Will the Guidance on the Methodological Approach currently elaborated by the PC Working Group also be included as selection criteria and if so, should ER-PINs only be submitted after this Guidance has been approved by the PC?</p>	
Norway	<ul style="list-style-type: none"> • Yes. This approval should refer to the submission of a proposed program, not an approval to enter into the ERPA itself. There may be a need for such a second approval once the details of the ER Program are clear, e.g. with regards to ‘nesting’/accounting, link to national strategy, consultations, national benefit sharing and the right to enter into an ERPA. • This could be the agency authorized under the national REDD+ Management arrangement, or the FCPF focal point. • We are uncertain whether a letter of intent will be needed. Perhaps an approval from the carbon fund to allocate budgets for WB due diligence will do? A Lol would need to include strong contingencies on elements to be completed before ERPA, such as consultations and buy-in from relevant stakeholders and the national government if applicable 	
Private Sector	<ul style="list-style-type: none"> • Submission should be by REDD Focal Point for a country or by an entity with clear legal authorisation • Clarity required regarding the FMT completeness check. If the Fund adopts a batches approach, it would be better to use this as a preliminary vetting step some months before final deadline for batch submission 	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
USA	<p>We do feel that a formal letter of support for an ER-program should be submitted, similar to those required for the GEF. We believe it would be most appropriate to require this letter of support at the submission of the ER-PIN, as this would ensure greater harmonization with national plans, demonstrate awareness of the proposed program by national authorities at an early stage, and hopefully avoid unexpected complications with approvals later.</p> <p>If the national strategy or management arrangement indicates an authorized agency for approving proposals, this agency would be the most appropriate authorizing agent. If arrangements are unclear, however, the FCPF might request that designated REDD+ focal points provide the letter of approval.</p>	

Step 3: The FMT liaises with the REDD Country Participant to clarify any issues and obtain a commitment giving the Carbon Fund right of first refusal over the ER Program or a part of the Program’s ERs for a given period of time

8. The question was raised if a right of first refusal is required at this stage of the process or if the right of first refusal can be waived and /or combined with the Letter of Authorization.

9. It was clarified that a right for first refusal implies that the REDD Country Participant / authorized entity can negotiate with other interested buyers. If they get an offer from other buyers, they would need to offer the ERs first to the Carbon Fund at that same price. This is different from an exclusivity period, in which the REDD Country Participant / authorized entity is required to negotiate with the Trustee an ERPA on the basis of exclusivity for a certain time period. In step 8 of the process, the Letter of Intent (LoI) could contain an exclusivity period which can potentially be followed by a period with right of first refusal. However there seem to be limited benefits to having a right of first refusal in this step. Therefore the Trustee suggests to waive this provision for all ER Programs in this step.

10. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	<p>Exclusivity shouldn't be applied at this point as this potentially undermines market function. Right of first refusal would be sufficient to protect the initial procedural investment, however, this may deter submissions from projects with higher potential for return on investment, and is not essential at this stage.</p> <p>No reason to object to removal of both first right of refusal and exclusivity period at this point.</p>	<p>At CF3, CFPs agreed that once an ER-PIN is included into the pipeline, a Letter of Intent (LOI) would be negotiated. There was no consensus on whether to require right of first refusal or exclusivity at this point. Exclusivity at the LOI stage was particularly emphasized by the private sector participants, and noted as important if advance payments were to be approved.</p> <p>At the same time, there was recognition that the Carbon Fund aims to catalyze and 'crowd in' rather than 'crowd out' other players, and that the exclusivity probably should only be for an ER volume relevant to the likely volume of the Emission Reductions Payment Agreement (ERPA).</p> <p>The proposed process contains the option for the Carbon Fund to require a right of first refusal</p>
BP	<p>A ROFR is necessary for the reasons mentioned by CDC and could be restricted up to a certain volume of credits, therefore allowing the country to pursue other buyers. Given that the PIN will be posted on the FCPF website, the project will be publicly viewed as an effort supported by the FCPF and by extension the Carbon Fund. For the Fund to not have a ROFR at this point undermines the Fund's role as leading the development of performance based payments for REDD. However, will the Fund's pricing/valuation approach be made public? If so, the Fund can easily be outbid unless it is allowed to adjust the structure if the market becomes competitive.</p>	
CDC Climat	<p>Given that the ER-PINs will be posted on the FCPF website, it is in our view important that we get at least a right of first refusal for the volumes that the FCPF would consider buying (to be defined case by case), and that these volumes are senior volumes. Otherwise, other market actors could just check the FCPF website for new programs and try to buy the credits before the FCPF.</p> <p>If the right of first refusal is exercised, then an exclusivity period should start immediately.</p>	
Costa Rica	<p>La mejor opcion es que si se tiene una mejor oferta demostrada, el fondo de carbono pueda igualarla como primera opción.</p>	
EC	<p>We do not think the right of first refusal is relevant in a phase 2 perspective: According to UNFCCC decision, market based approaches (possibly including carbon trading if deemed appropriate) for REDD+ would be designed by the COP, if at all. Such trading is unlikely to generate much competition for REDD+ credits on the demand side before significant demand is created through binding targets for all major emitters, post</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	2020.	
FOE, CIEL and Global Witness	No comment	before considering an ER-PIN (step 4) or, alternatively, to sign a Letter of Intent (step 6).
Germany	We would support the proposal to waive right of first refusal.	
Norway	Agree that first right of refusal is not necessary and indeed not appropriate. It would require very mature programs, with full buy-in from stakeholders, which may not be realistic before a draft ER PIN is formulated and assessed.	
Private Sector	No comment	
USA	<p>We agree with the Trustee’s recommendation to waive the right of first refusal in this step. We will likely receive many more proposals than will be funded, as submissions may now be done at an early stage and do not require a financial commitment on the part of the Carbon Fund.</p> <p>We do have some questions about the exclusivity period and whether or not that is necessary. If the proposals submitted are at a national or regional scale, there’s a good chance that the CF will not be able to purchase all of the credits generated from a specific proposal; allowing countries to also negotiate with other buyers will enable them to develop a comprehensive financing package for a particular project. Allowing countries to negotiate with other potential buyers also promotes a more “real market” process for these credits, where there are multiple buyers bidding for credits. This will stimulate a more realistic market price for these credits that is reflective of supply and demand, compared to a scenario where the CF is the only purchaser of credits.</p> <p>The disadvantage to this approach is that it could put the CF in the position of being a market price taker, as opposed to a price maker. However, given the broader objectives of the CF to stimulate a REDD+ crediting market and leverage private sector finance, allowing countries a fair degree of latitude in pursuing multiple credit purchasers seems to make sense.</p>	

Step 4: If the proposed ER Program meets the requirements listed in step 2 above and the Carbon Fund has acquired right of first refusal, the FMT submits the ER-PIN to the Carbon Fund Participants and posts it on the FCPF website

11. The process foresees posting of the ER-PIN. If any comments are received, the FMT would compile these comments and share them with the Fund Participants.

12. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	No comment	No additional points were made at CF3. No changes were made to the process. The posting of the ER-PIN is included in step 4 and, if relevant, any comments received can be taken into account by the Fund Participants in step 5 when they decide their interest in the proposed ER Program.
BP	No comment	
CDC Climat	No comment	
Costa Rica	Las ofertas deben ser demostradas y registradas, en el registro que cada país debe llevar. Fondo de Carbono también debe llevar un registro alimentado por los países.	
EC	No comment	
FOE, CIEL and Global Witness	We agree with this approach and note that public comments on ER-PINs are a source of useful information to aid CF Participants in assessing the quality and risks of a proposal.	
Germany	ok	
Norway	Agree that ER-PIN should be posted online.	
Private Sector	No comment	
USA	No comment	

Step 5: The Carbon Fund Participants may request the FMT to establish an Ad Hoc Technical Advisory Panel (TAP) to assist them in reviewing the ER-PIN

13. The question was raised that about the role envisioned for the TAP?

- i. Ensure consistency of ER-PIN with the R-PP and readiness progress;
- ii. Provide feasibility/risk assessment of the ER-Program and its performance;
- iii. Independent review of specific issues/aspects of the proposed ER-Program as requested by the Carbon Fund Participants;

iv. Other?

14. Is a TAP review required for each ER-PIN submitted?

15. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	<p>Standard rule should be for a TAP review of each ER-PIN, however, capacity should exist for this to be waived on a case-by-case basis. Waiver of this rule may potentially be considered in the event that a review has already been conducted by a sufficiently credible and independent body (such as a previous TAP) and there has been no change in circumstance.</p> <p>An agreed set of standards for the TAP review should be required to aid comparison of applications on even terms and anticipation of budgetary implications. Consider capacity and/or necessity to assess at a level above agreed standards on a case-by-case basis where the Fund deems appropriate. Providing the budgetary implications are not too great, ad hoc TAPs should be established.</p>	<p>At CF3, it was agreed that the FMT would propose criteria for selecting ER-PINs into the pipeline of the Carbon Fund to the Carbon Fund Participants for adoption at CF4, building as appropriate on elements from the issues note, the emerging</p>
BP	<p>A TAP should be utilized on a case by case basis once the Fund has a better sense of the outcomes that can be expected from the FMTs due diligence process and remaining questions. A TAP would need to have specific timing to avoid delays, for example if PINs are submitted in batches, a single TAP could be assigned to that batch and report findings prior to the next PIN submission window. Agreed with CDC that the PIN – RPP process should be part of World Bank due diligence and that a TAP would focus more on the riskiness of achieving emission reductions based on the circumstances of a particular country</p>	<p>methodological framework, and the Readiness Package, as appropriate.</p> <p>The proposed process guidelines try to clarify the involvement of the FMT and the TAP as follows:</p>
CDC Climat	<p>It is not clear for us what the respective roles of FMT and TAP would be. We think that part of the due diligence by FMT (eg financial aspects, overall quality of the program) should take place before, or in parallel with, the work of the TAP.</p> <p>We think that the Fund participants should decide on a case by case basis when a TAP would be required.</p> <p>The consistency of ER-PIN with the R-PP and readiness progress seems to us to belong to the due diligence process.</p>	<ul style="list-style-type: none"> • FMT reviews the ER-PIN (step 2) and optionally provides feedback at this stage (step 3) • CF participants may request the establishment of

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>The other items suggested could indeed be part of the TAP's role.</p> <p>The TAP review would in our view be necessary probably at least for the few first ER-PINs presented. For later submissions, it would probably depend on how different the new ER-PINs are from the ones that have already been examined.</p> <p>Finally, it is important for us that the TAP budget is capped when a decision is taken to include a TAP review.</p>	<p>a TAP for ER-PIN review but on a case-by-case basis (step 5)</p> <ul style="list-style-type: none"> • The FMT and/or TAP review the ER Program Document to ensure the program design meets the requirements of the Carbon Fund (step 0)
Costa Rica	<p>Debe haber un equipo basico que apoye a los paises a mejorar sus programas, sin embargo las revisions de los ER-PIN deben tener su propia conformacion para atender las particularidades de los países.</p>	
EC	<p>The TAP should systematically work on the basis of the agreed R-Package, ensuring consistency or assessing possible deviations/update/progress between the elements of the ERPIN and framing elements of the R-Package. The review should also underline how subnational ERPs mesh with local institutions, local forest dependent communities, local economic sector, local authorities and local development priorities.</p>	
FOE, CIEL and Global Witness	<p>A TAP review using a standardized approach should be required for each ER-PIN considered by the CF Participants, and there should be general guidance on the scope and role of the TAP review. The scope of the review should assess the quality of the information in the ER-PIN and its consistency with methodological guidelines established by the CF, including the status of safeguards implementation in addition to the functions mentioned here.</p> <p>It is not yet clear if the information provided in the ER-PIN is sufficient to make a valuable assessment, particularly with regard to the provisions in the Cancun decisions.</p>	
Germany	<p>Maybe introduce an additional step Pre-selection: It is key to ensure that only ER-PINs are dealt with by TAPs that have a real chance to be selected by the CF to keep costs low. One possibility could be the following procedure (but maybe the FMT could come up with another approach):</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>Among all presented ER-PINs, an ER-PIN is only further “processed” at the deadline if its further discussion is proposed by a majority of Carbon Fund participants. If an ER-PIN does not enter this stage, it can be revised by the country and will enter the batch at the next deadline.</p> <p>Selection criteria for CF participants could be:</p> <ul style="list-style-type: none"> - Readiness Progress (positive Mid-Term Report, if not yet available DP’s informal assessment) - Diversity (regional, conceptual etc.) - Quick initial assessment of key features of all received ER-PINs by a TAP or the FMT. <p>In-depth assessment only for ER-PINs that are selected into the second stage (i.e. backed by the majority of CF participants). Every ER-PIN selected into the 2nd stage will be assessed by a TAP that ensures consistency of ER-PIN with the R-PP and readiness progress; provides feasibility/risk assessment of the ER-Program, its costs and its performance; may provide an independent review of specific issues/aspects of the proposed ER-Program if requested by the Carbon Fund Participants.</p>	
Norway	All ER-PINs should be assessed by a TAP, with general guidance. In addition, the CF may request a specific issue to be assessed.	
Private Sector	<p>Note the likely inertia associated with the Lol signing. Is the ER-PIN enough to ground a TAP review. How to give guidance to ER-PIN applicants of likely detail of TAP diligence (if extensive). If TAP review is light because Lol is seen as something that can be terminated for lack of progress etc. then what further diligence will the CF participants have access to</p>	
USA	<p>We do feel that a technical review process is needed to decide which programs should be accepted into the portfolio. We feel that, to avoid some of the criticisms of other REDD+ programs that supported a limited number of countries, decisions will need to be made on a transparent and objective basis.</p> <p>However, we question whether ER-PINS, especially if submitted at a very early stage (eg soon after the signing of a Readiness Preparation Grant) would provide sufficiently complete and mature information for such a robust assessment. (We do feel that feedback should be provided on the ER-PIN; but this may be early feedback to facilitate the</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>preparation of a Program Document.) It may be necessary to have the TAP provide input multiple times as it does in the R-PP formulation: review the document early in the process to provide feedback, and then again later on to help ensure all requirements are met.</p> <p>This process seems very similar to that of validation under the CDM. While the validation process (here the TAP review of the ER-PIN) can be costly both in terms of time and money, we believe that given the immaturity of the market and the complexity of terrestrially-based crediting, expert review at multiple stages of program development will be necessary and will increase the likelihood of successful program implementation and quality credit generation.</p> <p>It was decided in Berlin that further discussion was needed on the timing of the budgetary allocation for further development of ER-PINs before the signing of Letters of Intent. We suggest that this discussion be expanded to include the type of information that would be required before a determination of funding is made and LOI is signed. A decision on the technical review process for each program could then be made more easily. (See also comments on steps 9 and 10.)</p>	

Step 6: The Tranche Participants make their decisions regarding inclusion of the proposed ER Program into their portfolio, taking into account the TAP’s ER-PIN review and other relevant comments;

Step 7: If the ER Program is included in the portfolio of either Tranche, the Participants in that Tranche approve a budget allocation for the preparation of a carbon finance transaction based on the ER Program

16. The FMT suggested combining steps 6 and 7 so that inclusion in the portfolio also means budget allocation to the country and the Bank, and authorization to the Trustee to sign a Letter of Intent.

17. For budget allocation, the FMT suggested that budget allocation for the World Bank implemented activities (including World Bank due diligence and possible TAP or independent reviews) would be based on actual costs (with reporting every 6 months on progress and expenditures) while any allocation to the country/Program entity for program development (e.g., preparation of further

documentation, stakeholder consultations etc.) could either be a flat budget allocation OR flexible based on the complexity of the ER Program.

18. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	<p>Agree to combining steps</p> <p>Suggest program development costs flexible based on complexity and size of ER program.</p>	<p>At CF3, it was agreed that upon review of an ER-PIN, CFPs</p>
BP	<p>We're unclear on the need for budget allocation to the countries. It seems appropriate that the time and resources that the country has devoted up to this point would continue through the ERPA execution. This is a reasonable "investment" or in-kind contribution on the part of any seller who needs to provide information to a buyer to make an investment decision. There appears to be disagreement on this among the CF participants, so what kind of activities would countries need funding for at this stage? What's an approximate budget? It may be commercially awkward for the potential buyer to pay the costs of the potential seller and can create conflicts of interest.</p> <p>An at-cost budget allocation for the World Bank expenses is fine. What kind of expenses may a TAP incur? Will they be conducting a desk top or in-field review?</p>	<p>would decide whether to include the ER-PIN into the Carbon Fund pipeline, to support the ER-PIN development with financial resources for further improvements, or not to include the ER-PIN, on a case-by-case basis. ER-PINs not included may be modified and presented again in a subsequent batch.</p>
CDC Climat	<p>We don't understand why there would be a budget allocation to the country. Would that be part of the shared costs?</p> <p>We wouldn't object to combining step 6 and 7.</p> <p>Budget allocation based on actual costs is fine for us upon the following conditions:</p> <ul style="list-style-type: none"> - An estimate of the costs is presented to fund participants beforehand - a cap is defined at the beginning, and the Fund participant's approval is required if budget is needed above 	<p>The FMT also presented different ideas on how to phase funding provided for ER-PIN/ER-Program development, including:</p> <ul style="list-style-type: none"> • \$200,000 (across the portfolio) to support development of ER-PINs

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>that cap.</p> <p>We suggest allocating the budget by tranches.</p>	<ul style="list-style-type: none"> • After an ER-PIN is reviewed, additional funds to support further enhancement of each ER-PIN if needed; • If after reviewing the enhanced ER-PIN Participants then decide to sign a Letter of Intent, additional funds could be allocated to support development of an ER-Program and negotiation of an ERPA. <p>The proposed process guidelines suggest the following:</p> <ul style="list-style-type: none"> • The ER-PIN is presented first and is the basis for the inclusion in the pipeline (step 5). • The ER Program Document is submitted later (step 9) and is the basis for the final decision about inclusion of the ER
Costa Rica	De acuerdo	
EC	We think so, and agree the budget allocation should be based on actual costs (with reporting every 6 months on progress and expenditures) as far as possible to inform the implementation of REDD+ at national scale.	
FOE, CIEL and Global Witness	<p>Steps 6 – 8 represent an important decision point because a budget will be allocated and a letter of intent signed. We recommend that countries should demonstrate adequate progress with readiness activities at this stage to ensure that ER programs are consistent and provide applicable learning value. The Charter requires that an R-Package is endorsed before an ER program is submitted for consideration by the CF Participants. We continue to question whether the order of the steps proposed here is consistent with the spirit of the Charter.</p> <p>We also note that budget allocation relates to the specific responsibilities and expectations of the parties involved. Therefore, it would seem prudent to fully understand the role of the TAP and any further evaluation processes before deciding on the budget allocation approach. It does however seem prudent to allocate budget for actual costs, especially in such a learning environment.</p>	
Germany	<p>Combination OK.</p> <p>Flexible budget allocation, decision to include an “expensive” ER Program has been taken before (step 6), based on cost estimates from TAP.</p>	
Norway	Agreed, if an LOI is agreed to be necessary. Agree that budget allocation and inclusion in portfolio should happen simultaneously, although legal agreement may not be needed until ERPA stage. Happy to hear the views of FMT and other participants on that.	
Private Sector	To what extent is it intended that ER-PIN applicants will have support from budget for further development of ER Program to meet questions / gaps identified by CF/ TAP / FMT?	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
		<p>Program in the portfolio (step 11) and the ERPA negotiation (endorsement of the country's Readiness Package by the PC is also a necessary conditions).</p> <p>It is proposed that budget would be made available to further enhance an ER-PIN, if needed (step 5).</p> <p>It is also proposed that budget would be made available to develop the ER Program Document. There are two options for making this budget available: either based on the CF decision to include the Program in the pipeline (step 5), or after a Letter of Intent is signed (step 6). This budget would include funds to the REDD Country participant or authorized entity, to the World Bank Regional staff, and/or to the FMT to</p>

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
		support the Country and conduct due diligence (step 7)
USA	<p>We agree that it makes sense to combine steps 6 and 7, and that inclusion in the portfolio would imply signing a Letter of Intent and allocation of budget.</p> <p>However, as noted above, we think additional information beyond that included in the ER-PIN may need to be provided before a determination on whether a program might be included in the portfolio is made. (See comments on steps 9 and 10.)</p> <p>The PPT presentation from Berlin asks how costs should be allocated to the program entity for program development – on a flat basis, or flexible, depending on the size and complexity of the program. We feel that the experience of the Readiness Fund shows that flexibility may be warranted. There are certain elements that CF Participants may want to focus on to ensure completeness and quality – consultations, for example. On the other hand, we may want to consider requiring program developers to contribute a significant portion of the program development costs. If cost allocation is flexible, determinations of how costs are calculated should be clear and transparent.</p>	

Step 8: The Trustee sends a Letter of Intent notifying the submitting country of the Tranche Participants’ intention to consider the ER Program or a part of the Program’s ERs for a potential ERPA with the Carbon Fund

- 19. The question was raised as to the scope of the Letter of Intent?
- 20. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	How long does exclusivity period last?	At CF3, CFPs agreed that the language in the LOI would clearly signal that the LOI does not automatically mean an ERPA would be entered into, given that the Fund aims to promote competition even among ER-PINs with LOI signed, and to only enter into about five ERPAs. The Trustee will prepare a template for the LOI for review by the Carbon Fund.
BP	No comment	
CDC Climat	<p>Signing a binding agreement presupposes a clearly defined investment policy (including prices)</p> <p>In our view, the LOI should include:</p> <ul style="list-style-type: none"> - confidentiality clauses (including for communication to the outside) - a calendar - volumes and period over which these volumes would be delivered - price indications (the price negotiation could therefore start at the LOI phase) <p>The exclusivity clause should be of at least six months.</p> <p>What costs would be included in the cost recovery in case of early termination?</p>	
Costa Rica	<p>Es importante considerar que cuando esta de por medio otra entidad, los gobiernos deben cumplir con los principios de la Ley de Administración pública, y para esto debe al menos hacer un concurso, a fin de autorizar una entidad y esto debe ser antes del ERPA, pero si no hay ERPA no hay seguridad de Recursos, es como el huevo y la gallina.</p> <p>Otra alternativa es que los proyectos de estas otras entidades autorizadas, formen parte del ER-PIN y estén priorizados en La propuesta de Gobierno y así podría escogerse las propuestas por orden de prioridad.</p> <p>El proceso de negociación de un ERPA dependerá de si es con el Gobierno o es privado, pues las leyes de contratación administrativa son diferentes. Yo me pregunto al abrir la posibilidad de proyectos, que pasa si el Gobierno prefiere un programa nacional?? Y como se vera esto ante países que lo harán por proyectos???</p>	<p>Step 6 contains a description of the elements of the Letter of Intent and includes an option for an exclusivity period (without specifying how long this period could be)</p>

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
EC	<p>The Legally-binding agreement between Trustee and REDD Country Participant / authorized other entity should include provisions that shall guide the ERPA negotiation process:</p> <ul style="list-style-type: none"> • Intention of parties, period to negotiate an ERPA in good faith, • Cost recovery in case of early termination of negotiation process, • Governing Law, Dispute Resolution, • Agreed scope, methodology and benchmark for positive incentives, fiduciary and institutional arrangements, eligibility and award criteria, • Operational terminology (clarifications on the definition of forest, of natural forest, of REDD+ activities and of REDD+ capacity building activities if needed). 	
FOE, CIEL and Global Witness	See comment above on sequencing of steps 6 – 9.	
Germany	OK, details to be discussed later this year.	
Norway	The LOI could include all of these elements. The LOI should be very clear about the contingencies, incl that the carbon fund has no obligation to negotiate an ERPA unless all requirements are met.	
Private Sector		
USA	See comments on exclusivity period above.	

Step 9: The FCPF Participants Committee, based on the information available (Readiness Package and other relevant information such as readiness progress reports and the ER-PIN itself), and possibly using the assistance of a TAP, assesses whether the submitting country has made sufficient progress towards REDD+ Readiness to enter into an ERPA with the Trustee of the Carbon Fund

Step 10: The World Bank performs its due diligence as required by the applicable Operational Policies and Procedures, including on environmental and social aspects, and in accordance with the standard internal procedures. The World Bank also advises the submitting country on ways to improve the quality of the ER Program during design and/or implementation, as appropriate

21. The question was raised if the ER-PIN and the other information mentioned in step 9 is sufficient for the Fund participants to make a decision or is more needed? It was noted that Step 11 mentions the submission of an ER Program document. Such an ER Program document could have a similar function as a Project Design Document (PDD) under the Clean Development Mechanism and contain further information on the implementation of the methodological framework and the ER Program characteristics defined in the Issues Note. Feedback was requested as to whether such a document would be considered useful and, if so, what would be the potential topics to be covered in such a document?

22. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	<p>From a pure investment return basis, reduction potential is a vital aspect of any agreement – recommend this due diligence as an essential step.</p> <p>Some assessment needs to be performed – this should probably be done by a WB body or a TAP with expertise based on consistent standards.</p> <p>In some cases, an ER-PIN as reviewed by a TAP may be sufficient to make a decision on ER due diligence. In other cases, a more detailed document and further review may be needed.</p> <p>More detailed discussion warranted on process and criteria on final decision on ER Program.</p>	<p>At CF3, CFPs reaffirmed that a Country may formally submit an ER-Program Document to the Carbon Fund once the Country’s R-Package is endorsed by the Participants Committee.</p>
BP	<p>By the time a LOI is signed, the Fund should have the results of the FMTs due diligence, TAP comments if relevant and public comments if any. The exclusivity phase in the LOI then provides a period for detailed due diligence, which should include the elements listed by CDC. These findings need to be reported somehow, which may be the purpose of the ER Program document, which as the FMT suggests is effectively the PDD. Legal title to carbon rights is particularly important and should probably be addressed in the PIN, rather than first addressed at this stage.</p>	<p>The proposed process guidelines suggest the following:</p> <ul style="list-style-type: none"> • The ER-PIN is presented first and is the basis for the inclusion in the pipeline (step 5) • The R-Package is endorsed by the PC (step 8) • The ER Program Document is submitted later (step9)and is the
CDC Climat	<p>We are wondering why the assessment vs REDD+ Readiness and the due diligence come that late in the process – at least part of these steps could take place before Lol (for example financial aspects, overall quality of the programs).</p> <p>We think there needs to be an emission reduction due</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>diligence. In addition to the ER PIN (updated), we think the following information is needed:</p> <ul style="list-style-type: none"> • Additional financial documents (business model) and confirmations on sources of funding such as proof of loan agreements (if not included in FMT due diligence) • Detailed calculation of emission reductions and detailed monitoring plan • Results of FMT due diligence and of TAP expertise • Legal documents clarifying carbon rights and certifying the transfer of carbon credits/rights from the relevant entity to the fund • Proof of land property rights (if not included in due diligence) • If any public or private entity other than the one submitting the program is involved in the program, a commitment letter from this entity and copy of contracts / operation agreements (if applicable) • Project timeline <p>We don't think that providing these documents will entail significant costs.</p> <p>We don't think an ER program document is needed since the ER PIN already contains a lot of information, however if such a document was produced we think that the document should be assessed by the FMT.</p>	<p>basis for the final decision about inclusion of the ER Program in the portfolio (step 11) and the ERPA negotiation (endorsement of the country's Readiness Package by the PC is also a necessary conditions)</p> <p>The assessment of the ER Program Document is discussed in step 10. This step would cover what was previously referred to as the 'emission reduction due diligence'. Step 11 provides optional additional documents to be reviewed together with the ER Program Document and the R-package.</p>
Costa Rica	Debe haber un document claro y concreto del ER-Program, que indique el impacto en reducciones dentro del Programa Nacional y la viabilidad de financiamiento..	
EC	We view the R-Package as a national framework for monitoring progress towards phase 3, not as a golden standard that would	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>be met at the end of phase 1. We therefore anticipate that the ER Program characteristics might differ considerably from one ERP to the next, depending on the strategy it adopts for tackling REDD+ and the extent to which REDD+ results can be measured by performance that is not translated into units of carbon. Some countries might focus on measuring results that serve as proxies to gauge reduction in pressure on forests and concentrate on progress towards building blocks (tenure, governance, enforcement monitoring). Other countries might opt to focus on measuring results on more specific forest activities with clearer impacts on carbon pools and non carbon benefits. The content of ER-PD should serve to indicate the approach, clearly outline the strategy, means of monitoring and collecting evidence that demonstrates results, without casting any of them in stone. We would encourage framing ER-PD on modular components depending on the specific situation and the relevant performance indicators identified through the R-Package and ER-PIN.</p> <p>The ER-PD (and comments thereupon) should be made publicly available on the FCPF website for a period of time suitable for proper consultation before it is endorsed in a PC meeting. The FMT should elaborate further on a series of due iterations – E.g. present "concept" proposal for discussion, post this on web and encourage open debate; 6 months later present full proposal with evidence of consultation process and transparency measures, etc.</p>	
FOE, CIEL and Global Witness	<p>Step 9 is a critical stage in the progression and cannot be overlooked. There has been no determination of what constitutes “sufficient progress.” While this work is on-going, it merits reflection on the budgetary implications of such an assessment (as does nearly every stage in the process). Again, these eligibility criteria should be clear from the outset.</p> <p>As noted in our comments on Steps 6&7, the Charter states that R-Package should be endorsed prior to submission of an ER program. This should be clearly stated as a separate step in the business cycle.</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>Once a country’s R-Package has been endorsed and its ER-PIN accepted into a CF tranche, the Bank’s due diligence process should begin along with the elaboration of a full emissions ER Program document. This document should be publically available and reviewed by a TAP (preferably the same group that worked on the ER-PIN for continuity and efficiency). A TAP review and public comments from multiple sources may contribute to alleviating asymmetries in negotiations.</p> <p>Additionally, in Step 10, the World Bank must conduct its due diligence to ensure consistency with operational policies and procedures, as well as relevant UNFCCC safeguards and international obligations.</p>	
Germany	<p>What is meant by emission reduction due diligence? In our understanding, an ER-PIN is the document based on which CF participants decide on whether to consider a “deal”. ERP is the document based on which CF participants effectively “make a deal”, thus if the contents differ (e.g. due to due-diligence results, change of government or issues related to R-Package endorsement), an ERP needs to be prepared and the costs for its preparation should be covered by the ER Program costs (step 7). Whether an additional TAP assessment is necessary should be decided on a case-by-case basis.</p>	
Norway	<p>Given that the ER PIN is an early stage idea note, a more comprehensive (and updated) document outlining all relevant elements of the program will likely be needed before a decision is made among CF participants to enter into ERPA negotiations. An updated TAP review may be appropriate at this stage in parallel with CF participants’ internal assessment. (CF participants may want to reconsider this need when the time comes). In addition, the WB should document that its own safeguards are met through relevant appraisal documents.</p>	
Private Sector	<ul style="list-style-type: none"> • Is it intended that World Bank internal due diligence process is also sufficient for CF participants • Agree that there should be a detailed document to support final ERPA decision. Not necessary to have independently validated 	
USA	<p>As noted above, we do feel that information will be needed beyond that proposed in an ER-PIN in order to make a decision</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<p>on whether to enter into an ERPA. (We think there is some merit to considering this even earlier – before a LOI is signed.) We would suggest careful thought be given to the contents of this document. The intention is not to be overly-bureaucratic, but to provide final and complete information on program design and preparation. Perhaps the feedback provided on the ER-PIN could include an assessment of what additional information would be required for the ER Program Document.</p> <p>We do believe a technical review of this document will be needed, and that this should include not only social and environmental expertise (safeguards, co-benefits), but also an assessment of issues such as institutional arrangements, proposed flow of funds, leakage, permanence, uncertainty, and other environmental integrity considerations. Sufficient funds will need to be allocated for this process.</p> <p>Should major problems be found, Participants may choose not to enter into an ERPA. Should minor issues be detected, these may be possible to resolve before ERPA signing, or as a condition of the first payment,</p>	

Step 11: The REDD Country Participant continues to develop the ER Program, based on inputs received from various parties, as appropriate, and submits its final ER Program document to the FMT

Step 12: Based on the Pricing/Valuation Approach and the General Conditions for ERPAs, which will have been adopted by the Participants Committee, the Trustee drafts an ERPA for this particular ER Program, which is sent to the submitting REDD Country Participant and the relevant Tranche Participants. As appropriate, the Tranche will only commit to paying for a fraction of the ER potential of the ER Program, leaving room for other interested entities to participate in one or several separate transactions. This (these) separate transaction(s) could include Participants from either Tranche looking to negotiate an additional, separate ERPA

Step 13: The REDD Country Participant and relevant Tranche of the Carbon Fund come to an agreement on the terms of the ERPA

23. The question was raised as to what the Trustee can do to facilitate the ERPA process. The Trustee is seeking to play the role of ‘honest broker’ between the buyers and the sellers. Within this context:

- i. How do Participants see the role of the Trustee in the ERPA negotiation and what role will the Fund Participants play themselves (and how should this be organized?)
- ii. What can the Trustee do to level the playing field between seller and buyer (mainly to reduce the asymmetry in knowledge and thus capacity to negotiate)?

24. The following views were received:

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
Australia	Agree with proposed approach; trustee should seek to do as much as possible to ensure a fair negotiation and contract process.	<p>At CF3, CFPs supported the idea of the FMT holding workshops or webinars with FCPF Participants during development of the ERPA General Conditions, if there is demand.</p> <p>Step 13 states that both buyer and seller negotiate the terms of the ERPA. In the ERPA negotiation process, the Carbon Fund or the relevant Tranche of the Carbon Fund may choose to select one or more CFP representatives to help negotiate the terms of the ERPA while the Trustee would help facilitate such negotiations.</p>
BP	<p>The complexity of who acts as an honest broker and whether there are representatives from both sides should be a function of how complicated the remaining negotiations are at this stage. If the pricing structure is pre-determined and the emission reductions programme has been scrutinized by the FMT, Participants Committee, Carbon Fund, TAP and the public – including environmental and social issues, such as benefit sharing – then it seems that by the time the ERPA is being finalized, the terms of the transaction will be fairly well defined. Workshops and capacity building would seem to come earlier in the process and be defined by the REDD Country Participant. If the fund pays for these types of activities, there is a conflict of interest – in other carbon funds, this type of work would more likely be grant or ODA funded. We may be missing something on this point and happy to discuss further.</p>	
CDC Climat	<p>We think that if any workshops or other initiatives are organized to create a better knowledge about ERPAs, the costs should be included in the shared costs.</p> <p>We are wondering about potential conflict of interests that may arise for the Trustee if they have a mandate both from the buyer and the seller. We would be interested in suggestions from the Trustee to deal with this issue.</p> <p>In our view, the buyer and the seller need to be clearly represented by two distinct entities. Therefore we can imagine two solutions:</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	<ul style="list-style-type: none"> - Having separate teams among the Trustee to defend the buyer and seller interests - Having an external advisors for each party 	
Costa Rica	De acuerdo. Talleres dirigidos a abogados	
EC	<ul style="list-style-type: none"> • The FMT should task and independent broker to produce a simplified version of the ER-PD (two pager, translated as appropriate) that would summarize in simple terms the roles and duties of key stakeholders, as well as the arrangements for fair benefit sharing and the recourse mechanisms. This simplified version would be put online at the same time as the ER-PD itself. • Guidance on the development process for the ER-PD. • Guidance to ensure that the ER-PD includes an iterative process to adapt as pilot action gets started – to review terms and to seek independent means of verification on both opinion and results. 	
FOE, CIEL and Global Witness	<p>The legal implications of entering in to an ERPA are significant. It will be necessary for all parties and stakeholders to fully understand roles and responsibilities entered in to through an ERPA. This will require stakeholder outreach , transparency throughout the negotiations, and early and effective participation.</p> <p>Related to step 2, all rights holders who may be impacted by programs developed or supported through the carbon fund must participate in the process. It should go without saying that their rights should be fully respected.</p> <p>Asymmetry is necessarily going to be an issue, due to the likely monopsonistic nature of the transaction. Further, benefits from existing carbon finance schemes have largely been captured by intermediaries, with little to no benefits accruing to communities or the host country. If the Carbon Fund is to demonstrate the potential of REDD in delivering new livelihoods to communities, the Trustee should consider carefully how to ensure benefits reach the community. This will need to be addressed in ERPA negotiations itself as well in</p>	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	capacity building for contract negotiations. We also suggest that the Trustee should endeavor to enhance understanding of the appropriateness of carbon finance transactions for different circumstances.	
Germany	Additional capacity building on ERPA General Terms and negotiation makes sense (workshops and information dissemination). Costs estimates would be helpful. Role of independent third parties needs to be discussed.	
Norway	Workshops and knowledge dissemination about the FCPF may be useful and appropriate, subject to demand. The ER Program Document may outline the responsibilities and mandates to enter into ERPA and go through a validation in-country.	
Private Sector	Workshops etc are ok but not likely to be definitive in supporting a seller. Better approach is to have FMT as facilitator but each side represented and well-advised. Eg Buyer’s rep and Seller’s rep, each with access to independent advice (or ability to refer queries of general market practice to FMT for confirmation)	
USA	In theory, only “about 5” ERPAs will be signed. Would workshops be held only for these approximately 5 countries, to help them better understand the ERPA process? Or only for countries that have signed LOIs? While broader workshops might be of interest to other countries, we wonder how useful they would ultimately be. We would suggest that any country that participated in workshops be requested to send both the entity responsible for implementing the program and (if different) the entity that would negotiate the ERPA. Dissemination of relevant material in appropriate languages is important, regardless of workshop choices. We do believe an “honest broker” role is appropriate for the Trustee. We suggest that CF Participants may consider organizing a small committee responsible for negotiating on behalf of the Participants. These people would need to have the appropriate expertise to negotiate ERPAs (ie not necessarily the usual representatives to the CF). Representation would need to be discussed, for example at least one private sector participant, and at least one	

Entity	View expressed	Outcomes of CF3 discussions, and where views are reflected in proposed process guidelines
	participant from each of the tranches (if negotiating together).	

Additional comments made

25. The following general comments on the process were received:

Entity	View expressed
Australia	
CDC Climat	The ERPAs should contain suspensive clauses to account for the time differential between ERPA signature and the receipt of all the documents
Costa Rica	
FOE, CIEL and Global Witness	<p>There are several processes ongoing in the Carbon Fund that each have direct bearing on one another. It would be helpful to clarify the timeline. For example, as we have said before, we are concerned about the sequencing of the RPackage assessment and submission/evaluation of ER-PIN. All of the proposed timing options in the Program Cycle appear to involve the ER-PIN being submitted before the R-Package is assessed. However, without having assessed the R-Package, it will be difficult to evaluate the strategic relevance of the proposed emissions reductions program to the drivers identified in the readiness process or, for example, in piloting monitoring systems and governance arrangements under development during the readiness phase. In step 5 on the TAP review of the ER-PIN, the TAP is expected to (1) ensure consistency of ER-PIN with the R-PP and readiness progress; (2) provide feasibility/risk assessment of the ER-Program and its performance; and (3) independent review of specific issues/aspects of the proposed ER-Program as requested by the Carbon Fund Participants. If the R-Package has not been assessed at this stage, it is unclear how program ideas will relate to the effectiveness of any Carbon Fund activities in furthering the objectives laid out in the readiness process.</p> <p>We also note that there needs to be clear criteria for evaluating performance at each stage of the process. The criteria need to be transparent and accessible. In addition, there needs to be clear eligibility criteria for inclusion in the Program Cycle, as well as for any emission reductions generated through ER-Programs. For example, it should be clear that programs are not approved until any problems with implementing safeguards are resolved. Similarly, if, during the life of the program, there is a documented violation of safeguards, there should be no eligibility for emission reduction units until that violation is remedied. This is in keeping with the spirit of the Carbon Fund and the definition of Emission Reductions contained in the Carbon Fund Issues Note, as well as with UNFCCC rules that require safeguards to apply in all phases of REDD.</p>

Entity	View expressed
	<p>Notably, there remains no clear guidance on how supervision will take place. This is a critical aspect of how monitoring and evaluation of performance will take place throughout the life of the program. The World Bank must be responsible for supervision and monitoring of ERPAs after they are approved. World Bank policies and procedures should apply in this context to ensure that programs are continuing to comply with Bank safeguards, as well as UNFCCC safeguards and international obligations. It is important that in assessing monitoring processes, the Safeguards Information Sharing System (SIS) under the UNFCCC should not be considered a replacement for comprehensive national and local monitoring. While harmonizing with UNFCCC processes is beneficial, noting that the SIS is a useful component of monitoring, it cannot substitute overall monitoring in the context of national or subnational REDD programs. The approach to supervision also determines the balance of responsibilities, as well as costs, for ensuring compliance. All parties should understand these requirements before entering in a transaction.</p> <p>We also note that the business cycle cannot end at Step 19, because of the unique nature of carbon finance transactions in the land use sector which necessarily require continual monitoring to guard against leakage and impermanence. This needs to be clarified in the business cycle.</p> <p>These programs may also generate more emissions reductions than the Carbon Fund can, or may be interested in purchasing. If the CF is interested in financing large programs, it would be useful to understand how the CF would carry out due diligence and calculate liability for a portion of emissions reductions generated.</p> <p>Finally, the Carbon Fund should specify that ERPAs and draft ERPAs are available to the public.</p>
Germany	
Norway	<p>We note that this process is necessarily linked to important work on methodological guidance and also to some degree to the R-Package discussions. We look forward to see and discuss all these elements, and to work with participants and observers to promote piloting and learning of forest carbon finance that can benefit the wider REDD+ and climate change community.</p>
Private Sector	
USA	<p>We feel strongly that consideration needs to be given to how potential applicants that submit an ER-PIN will be winnowed down to those with whom a LOI is signed, and (potentially) further to those with whom an ERPA is negotiated. This will need to be a transparent and, to the greatest degree possible, objective process with clear upfront criteria. And lack of objectivity or transparency will open the Carbon Fund up to criticism.</p> <p>While we very much believe a due diligence process needs to be robust, 12-18 months seems a bit long (and 2.5 years from ER-PIN to ERPA signing seems a bit excessive). We suggest we give consideration to how this process might be streamlined. Is there a way to</p>

Entity	View expressed
	<p data-bbox="334 233 1406 300">take greater advantage of the due diligence work already being done under the Readiness Fund, for countries that have participated in it?</p> <p data-bbox="334 338 1422 583">We suggest that very careful consideration be given at the next meeting to the contents of an ER Program Document. In part, these discussions will also need to be linked to discussions on the content of the R-Package. We do suspect that much of the real program design will happen after initial feedback on an ER-PIN, though the extent of this work will in part depend on the stage at which the ER-PIN is submitted (ie if it is submitted early, just after a Readiness Preparation Grant Agreement is signed, more substantial work will likely be required).</p> <p data-bbox="334 625 1401 724">As noted above, we believe we should discuss whether, and how, countries that did not receive Readiness Preparation Grants might be included in the Carbon Fund. Would they simply need to join FCPF and complete an R-Package, based on work financed elsewhere?</p>