

Forest Carbon Partnership Facility

Information Memorandum

June 13, 2008

The information provided in Part I of this Information Memorandum is preliminary. The Facility Management Team of the FCPF intends to update the information from time to time by issuing notes on specific topics.

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Part I General Information

Chapter 1: Introduction

Forest loss and degradation has been on the international community's agenda for over three decades. However, little progress has been made in reversing deforestation trends in most tropical and subtropical countries. About 13 million hectares of tropical forest were destroyed each year in the period 2000-2005 (about 7 million hectares if one subtracts reforestation and natural regeneration). The once-vast tropical forest estate is disappearing—mostly through conversion to agriculture—at a rate of approximately five percent per decade, a trend that is likely to continue for the foreseeable future.

Deforestation and forest degradation are the second leading cause of global warming. They account for about 20 percent of global greenhouse gas (GHG) emissions, and over a third of emissions from developing countries. In many developing countries, deforestation and forest degradation account for a majority of carbon emissions. For example, in Brazil and Indonesia, deforestation and land-use changes represent an estimated 70 percent and 80 percent of emissions, respectively. Although there remain divergent opinions as to how deforestation and forest degradation in tropical and sub-tropical countries should be included in any future climate regime, there is an emerging consensus that this issue must be effectively addressed. Omitting avoided deforestation and degradation would limit countries' options for reducing GHG emissions and concentrations to acceptable levels and reduce revenue flows to developing countries for their sustainable development.

Many forest-rich countries are also among the poorest in the world. Forest resources directly contribute to the livelihoods of 1.2 billion people living in poverty and indirectly support the natural environment that nourishes agriculture and the food supplies of nearly half the population of the developing world. Forests can be an important source of income, employment and subsistence for the rural poor and for national economic development more broadly. Almost 100 million people, many of them in small indigenous communities, live in remote areas in closed tropical forests. Another 800 million rural people live in or around tropical forests and savannas and rely on their resources for fuel, food or subsistence income. Deforestation for agricultural expansion, cattle ranching, logging, and plantation development, can deprive the poor of access to resources. Lacking viable alternatives, poor people often convert forests into farms that soon become unproductive due to degraded topsoil conditions. This process destroys sustainable sources of timber and related forest products that offer long-term stability and exchanges them for short-term income generation. Finding new funding sources to tackle deforestation and degradation also holds promise as a tool for reducing poverty among forest-dependent people and promoting their sustainable development.

In the face of this continuing challenge, the international community is exploring the potential of utilizing carbon finance to provide some of the necessary resources. Currently no regulatory instrument exists under the United Nations Framework Convention on Climate Change (UNFCCC) to compensate reductions in emissions from deforestation and degradation (REDD) in the form of carbon payments. However, the Parties to the UNFCCC are discussing the possibility of creating such an instrument in the future, and advanced the negotiations on this significantly at the thirteenth session of the Conference of the Parties to the UNFCCC (CoP 13).

It is in this context that the World Bank, prompted by a range of developing and developed country stakeholders, proposed the creation of a Forest Carbon Partnership Facility (FCPF or Facility) in 2006. The FCPF intends to assist developing countries in their efforts to reduce emissions from deforestation and degradation (REDD). It has the dual objectives of building

capacity for REDD activities in developing countries and testing—on a relatively small scale—a program of performance-based incentive payments in pilot countries.

The overall development objective of the Facility is to set the stage for a much larger system of positive incentives and financing flows for REDD in the future. As such, the direct impact of the FCPF in reducing emissions from deforestation and degradation may be relatively limited. However, the framework and approaches that the FCPF will test and demonstrate may help inform Parties to the UNFCCC as they negotiate a future climate regime which may include REDD. Moreover, the methods and instruments tested by the FCPF will seek to increase the level of confidence in the international community that REDD is a credible climate change mitigation instrument so that financial commitments for REDD, from both public and private sector sources, are significantly increased.

The FCPF will be comprised of two separate mechanisms. Each mechanism will include a trust fund for which the World Bank will act as Trustee:

1. **Readiness Mechanism (Readiness Fund):** Under this mechanism, the Facility intends to assist developing tropical and sub-tropical countries prepare themselves to participate in a future, large-scale system of positive incentives for REDD. This will include, but is not limited to: (i) determining a national reference scenario based on historical emissions from deforestation and degradation and, where needed and feasible, an assessment of how these emissions would evolve in the future; (ii) preparing a national REDD strategy; and (iii) establishing a monitoring system for emissions from deforestation and forest degradation.
2. **Carbon Finance Mechanism (Carbon Fund):** The Facility will support a few countries that will have successfully participated in the Readiness Mechanism to join, on a voluntary basis, a second mechanism through which the Facility will test and evaluate incentive payments for REDD programs in approximately five developing countries. The Carbon Fund will remunerate the selected countries in accordance with negotiated contracts for verifiably reducing emissions beyond the reference scenario. The Carbon Fund's payments are intended to provide an incentive to the recipient countries and the various stakeholders within each of these countries to achieve long-term sustainability in financing forest conservation and management. Such advances will reduce the negative impacts on the global climate from the loss and degradation of forests. The Carbon Fund would deliver emission reductions from REDD. These will provide evidence that GHG emission reductions resulting from the REDD activities launched by the participating countries have been realized and verified as per methodologies deemed acceptable by the countries and entities participating in the Facility.

Together, these two mechanisms seek to create an enabling environment and sponsor a body of knowledge and experience that can facilitate the development of a much larger global program of incentives for REDD over the medium term.

It is not expected that the FCPF's two Funds will meet all the technical and financial needs that developing countries face in order to be able to reduce emissions from deforestation and forest degradation. As noted above, the FCPF would be able to meet the needs of a limited number of countries that wish to engage in REDD. More fundamentally, the FCPF is not designed to finance the policy and investment programs that will be needed to achieve sustainable emission reductions. Specifically, the Readiness Fund will provide support for the assessments that are critical to undertaking work on REDD Readiness, e.g., analyzing how much GHGs a country's forests emit, where, and why; what should be done to reduce these emissions; and what system should be put in place to monitor these emissions in the future. The Carbon Fund will supply incentives to countries that have reduced their emissions, mostly on a performance basis. It is

clear that, in-between the Readiness Fund and the Carbon Fund, additional financial resources would be needed to fund the policy reforms and investments necessary to reduce emissions in a sustainable manner. In that context, the establishment of a Forest Investment Fund is currently under consideration by several bilateral donors.

The FCPF will adhere to several principles of engagement:

- **South-North Partnership:** The FCPF is a partnership characterized by a governance structure that gives equal weight to developing and industrialized countries. The partnership arises from the recognition that substantial and sustainable emission reductions from deforestation and degradation will require effective collaboration between developing and industrialized countries. The FCPF comes about in the context of important ongoing discussions on the roles and responsibilities of countries in the production of global goods such as climate and biodiversity protection. Southern countries, in particular those of the Coalition for Rainforest Nations, have provided the political and intellectual leadership needed to promote the underlying concept of the FCPF. The Coalition for Rainforest Nations worked to place reducing emissions from deforestation in developing countries (RED) on the agenda of the eleventh session of the Conference of the Parties to the UNFCCC in December 2005 in Montreal, and have, since then, collaborated with other countries and organizations to build an international agreement on the role of RED/REDD in a future climate change regime.

For a REDD system to be effective in providing long-term climate protection, the forest countries of the South will have to continue to show leadership by undertaking necessary reforms and investments. In recognition of the leadership that the South has provided and will continue to provide, the initiative is designed to accommodate these countries' desires and concerns. National policies and negotiating positions will be respected. However, the initiative is designed as a South-North partnership. The countries of the North must also obtain confidence that the financial resources that they will be expected to provide will result in real emission reductions and that the demonstration of a pilot REDD system will fit in a long-term climate protection framework.

- **Learning by doing:** The FCPF will focus on a promising, yet untested, incentive system currently being negotiated under the UNFCCC. The Facility is designed to test a number of ways of reducing deforestation and degradation based on national circumstances. A mixture of interventions and incentive models may be piloted, from policy reforms to on-the-ground investments. Similarly, several techniques for estimating past and future emissions may be tested. A common principle underlies these various approaches, namely that REDD must result in real, measurable, and long-term benefits related to the mitigation of climate change. The Facility will contribute to the development of methodologies which accurately and cost-effectively assess the carbon benefits of avoiding deforestation and degradation. These methodologies will use state-of-the-art scientific practice and will reflect and be informed by lessons and guidance emerging from other international processes.

The goal is to use methods to validate simple, conservative and cost-effective measurement protocols. Quality control will be applied to all methods and pilots with an equal level of rigor. In addition, independent verification of the results would ensure a conservative and transparent approach. Ultimately, the knowledge generated by the FCPF experience is expected to be fed into the UNFCCC process through the FCPF Country Participants that are also Parties to the UNFCCC. Vice versa, the FCPF will seek to align with the emerging UNFCCC rules and modalities.

- **Sovereignty:** The FCPF will respect sovereign country decisions as to the manner in which they elect to use the Readiness Mechanism to prepare themselves for REDD. The countries participating in the Carbon Finance Mechanism will choose how to reduce GHG emissions, subject to the quality criteria set by the Facility. The countries will individually prepare and submit proposals to the Facility under both mechanisms.
- **National approach:** The FCPF will assist interested countries in establishing a national accounting framework and reference scenario for emissions from deforestation and degradation. A national approach to REDD is necessary to mitigate the risk of “leakage” within a country. This national approach would not preclude implementation of sub-national programs and projects, which are likely to be needed in many situations. However, these would need to be linked to the national accounting system and reference scenario.
- **Integration:** Many of the potential solutions to REDD are already well known. However, current approaches to development of REDD programs are highly fragmented. The FCPF will support activities that are fully consistent with, and integrated into, the existing set of policies and measures in the forest sector. Support will be designed and delivered in a framework that is aligned with and integrated into national forest and agriculture sector strategies and related donor assistance at the country and regional levels. Technical assistance could increase capacity to develop sound regional development plans. Further it could initiate forest-friendly rural economic development strategies, and strengthen national park and protected area systems. The Facility will also aim to develop synergies with other relevant international policy processes. These include the UN Forum on Forests, which will consider future funding mechanisms in support of conservation and sustainable management of tropical forests, and the UN Convention on Biological Diversity. Financially, the FCPF will complement the resources already allocated to these policies and measures. There could also be synergy between the FCPF and the Norwegian or Australian initiatives on forests and climate, or the portion of the United Kingdom’s Environmental Transformation Fund which may be allocated to forests. All of these initiatives, together with official development assistance, can go a long way in financing the policies and investments needed for generating sustainable emission reductions from REDD. Carbon finance, by virtue of its system of recurrent performance-based payments, is expected to make the programs initiated using traditional sources of finance (including bilateral and multilateral assistance, and private sector investments) more sustainable.
- **Multiple benefits:** As part of addressing the drivers of deforestation and degradation, the Facility is expected to achieve benefits that go beyond climate change mitigation, including poverty reduction and biodiversity promotion. To the extent possible, REDD activities will be planned to increase these associated benefits and the resulting improvements will be documented.
- **Stakeholder participation:** Inclusiveness and broad stakeholder participation will be key features of the partnership, both at the international and national levels. At the international level, the FCPF intends to provide a platform for discussing issues and sharing experiences across a broad range of donors and organizations. At the national level, the relevant stakeholders and right-holders will be consulted and participate in the readiness process. A national approach does not mean exclusivity of the national government in benefiting from capacity reinforcements under the Readiness Mechanism. Given that a durable solution to deforestation and degradation requires the involvement of multiple actors across society, it is important that these actors participate early on in the readiness process. Countries will, for example, make special efforts to ensure that

forest-dependent indigenous peoples and other forest dwellers meaningfully participate in decisions that may affect them and that their rights are respected consistent with national law and applicable international obligations.

The FCPF's target capitalization is US\$300 million, consisting of US\$100 million in the Readiness Fund and US\$200 million in the Carbon Fund. The latter may be achieved through a tranching process, whereby the capital is raised and allocated in several steps. The FCPF will be declared operational once the minimum size of the Readiness Fund has been attained. The minimum size for the Readiness Fund to become operational is US\$20 million, with contributions of at least US\$5 million per contributor expected from Governments and other public and private entities (together referred to as "Donor Participants"). The minimum operational size of the First Tranche of the Carbon Fund is set at US\$40 million. Contributions to the Carbon Fund of at least US\$5 million per contributor are expected to come from Governments and other public and private entities (together referred to as "Carbon Fund Participants").

Considering the financial volume that REDD is expected to generate, the FCPF will start with a relatively small size. But it will aim to create a demonstration effect to 'jump start' international efforts to tackle deforestation and degradation on a larger scale, and to crowd in private capital. With sufficient progress and donor/buyer interest, the demand for emission reductions from REDD might increase over the medium term. There is already significant interest in the voluntary market for emission reductions from REDD. The private sector is likely to show increasing interest for this type of carbon transactions. Hence, the World Bank's engagement in carbon purchases through a dedicated FCPF Carbon Fund would phase out over the long term, once demand for REDD certificates matures.

Given the complexity of the issues involved and the likely duration of Readiness activities and Emission Reductions Purchase Agreements entered into under the Carbon Fund, it is expected that the FCPF would operate until the end of 2020, subject to relevant provisions under the Charter Establishing the FCPF (the "**Charter**").

This Information Memorandum provides an overview of the main operational aspects of the FCPF. It is the result of nearly two years of thinking and consultations with a large group of stakeholders. The Information Memorandum contains the Charter, which is the legal instrument of the Facility and the framework for the work to be undertaken under the Facility, and draft Participation Agreements for Donor Participants and developing countries, referred to here as "REDD Countries." General Information complements the legal documentation. The Information Memorandum is constructed as follows: Part I sets the FCPF in context, describes the proposed operational arrangements for the two Mechanisms, and includes a special chapter on knowledge management; Part II consists of the Charter; and Parts III and IV contain the blank Participation Agreements.

Chapter 2: Background

2.1 Reducing Emissions from Deforestation and Forest Degradation in the UNFCCC

2.1.1 UNFCCC and REDD

The UNFCCC's goal is "to stabilize atmospheric concentrations of GHG at a level that would prevent human-induced actions from leading to 'dangerous interference' with the global climate system" (Art. 2 of the UNFCCC). The basis for the establishment of the FCPF derives from Article 3.3 of the Convention, where it seeks "to cover all relevant sources, sinks and reservoirs of GHG", and Article 4.7, where it states that "economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties."

Recognizing the importance of GHG emissions from deforestation and degradation, the Conference of the Parties (CoP) of the UNFCCC agreed, at its eleventh session in December 2005, on a two-year process to consider policy approaches and incentive options to reduce emissions from deforestation (RED) in developing countries for any potential post-2012 climate policy regime. Since then, the process has focused on understanding the drivers of deforestation and discussing technical and methodological requirements, financing options, policy instruments, approaches and positive impacts of protection. Discussion of reducing degradation of forests has been added to the debate, leading to the term REDD.

At CoP13 in December 2007, the Parties to the UNFCCC adopted the "Bali Action Plan," in which they decided to "launch a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012, in order to reach an agreed outcome and adopt a decision at its fifteenth session, by addressing, inter alia ... [e]nhanced national/international action on mitigation of climate change, including, inter alia, consideration of ... [p]olicy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries."¹

Specifically on REDD, the Parties encouraged "undertaking and evaluating the range of demonstration activities ... [and] the use of the most recent reporting guidelines as a basis for reporting greenhouse gas emissions from deforestation." Further, "Parties not included in Annex I to the Convention are encouraged to apply the *Good Practice Guidance for Land Use, Land-Use Change and Forestry*."

The Parties recognized the existence of "outstanding methodological issues including, inter alia, assessments of changes in forest cover and associated carbon stocks and greenhouse gas emissions, incremental changes due to sustainable management of the forest, demonstration of reductions in emissions from deforestation, including reference emissions levels, estimation and demonstration of reduction in emissions from forest degradation, implications of national and subnational approaches including displacement of emissions." The Parties asked the UNFCCC's Subsidiary Body for Scientific and Technological Advice (SBSTA) to examine these various issues and report on progress to CoP14.

Finally, the Parties noted that "subnational approaches, where applied, should constitute a step towards the development of national approaches, reference levels and estimates."

¹ See <http://unfccc.int/resource/docs/2007/cop13/eng/06a01.pdf#page=3>

2.1.2 The Kyoto Protocol and REDD

The discussion on REDD to date has taken place in the context of the UNFCCC Convention. The Convention has only general commitments to reduce GHG emissions and other climate policy objectives.

In contrast to the Convention, the Kyoto Protocol provides for specific Quantified Emission Limitation and Reduction Commitments (“QELRCs”) to be met by the countries listed in Annex I to the UNFCCC, including developed countries and those with economies in transition (EITs).²

The Kyoto Protocol, which was adopted in 1997 and went into force in 2005, requires Annex I countries to account for the changes in carbon stocks associated with Afforestation, Reforestation and Deforestation activities undertaken since 1990, and allows them to account for all land use activities.

The Kyoto Protocol provides that Annex I Countries can meet some proportion of their QELRCs through three market-based mechanisms (“Kyoto Mechanisms”): The Clean Development Mechanism (CDM), Joint Implementation (JI), and International Emissions Trading (ET). The first two mechanisms, which generate Certified Emission Reductions (CER) and Emission Reduction Units (ERU), are ‘project-based,’ in that they enable Annex I Countries to purchase emissions reductions from projects which reduce or sequester GHG emissions in EITs and non-Annex I Countries. Each individual CER and ERU equates to one metric ton of carbon dioxide equivalent abated.

The Kyoto Protocol also permits crediting for Joint Implementation projects (between two Annex I countries) to reduce emissions or to enhance sinks. By contrast, the Protocol permits developing countries to achieve Emission Reductions from Afforestation and Reforestation under the CDM, but does not permit them to claim credits generated from activities that prevent deforestation. Yet tropical deforestation accounts for approximately 20 percent of global carbon emissions, and over a third of all emissions from developing countries.

The Marrakesh Accords, which complement the Kyoto Protocol, allow for Land Use, Land-Use Change and Forestry (LULUCF) projects to be eligible under the CDM for the First Commitment Period, but limited to Afforestation and Reforestation (A/R) activities.

The rules for including A/R projects in the CDM were further developed by the ninth session of the Conference of the Parties (CoP9) in December 2003.³ A/R projects undertaken in the CDM generate temporary credits, so the risk of non-permanence or reversibility of GHG benefits was central to the CDM’s handling of forest projects. LULUCF assets are derived from the uptake of carbon into terrestrial vegetation and soils, which can be released through fires, unsustainable harvest, pestilence or poor management practices. CoP9 agreed on a crediting system to deal with the non-permanence risk, relying on generation of either temporary or long-term CERs with rules for renewal, retirement, and verification.

2.1.3 Looking Forward

The inclusion of positive incentives for REDD in any future international climate regime would provide the opportunity for developing nations to participate in global efforts towards climate change mitigation while promoting sustainable economic development. As SBSTA recognizes,

² Annex I Countries that have ratified the Kyoto Protocol have agreed to reduce their GHG emissions by an average of approximately 5 percent below their 1990 levels over the first Commitment Period, from 2008 through 2012.

³ The COP9 decisions relevant to LULUCF are contained in the document FCCC/CP/2003/6/Add.2, and can be found on the UNFCCC website: <http://unfccc.int/resource/docs/cop9/06a02.pdf>

“reducing emissions from deforestation in developing countries can promote co-benefits and may complement the aims and objectives of other relevant international conventions and agreements.”

The issue of whether and how to include REDD in a positive incentives system needs to be viewed in the overall context of the negotiations of a new climate regime post-2012, when the Kyoto Protocol’s First Commitment Period comes to an end. For many countries, REDD is the main, if not only, way they can significantly reduce emissions and thus benefit from international financial flows. Moreover, given the share of the global warming problem that is attributed to deforestation and forest degradation and the significant potential to reduce these emissions, in some cases at a low cost, an unrestricted crediting of Emission Reductions from REDD in a homogeneous post-2012 market would likely have significant consequences on carbon market prices, unless the demand for Emission Reductions is altered. Thus, it is unrealistic to expect a definition of the instruments and mechanisms regarding REDD independently from a much broader decision on the form and environmental stringency of a future climate regime.

Clarity on the contours of any future regime, and whether or not it would permit early action in REDD, may realistically only be expected by CoP15 in December 2009. This reflects the time needed to advance technical discussions and obtain consensus among countries. Information about REDD is still not readily available. Few institutions and countries have the requisite technical expertise to translate the generic REDD discussions into the specifics of their own national context, and design the monitoring and delivery mechanisms to implement a performance-based REDD system at the national scale.

At the same time, the private sector is moving more swiftly, and some speculative investments are already occurring. Signals from the financial markets and the rapid increase of activities in the voluntary market, especially for forestry assets, are positive developments, but at the same time they require quick and coherent answers from national governments and the Parties to the UNFCCC lest those initiatives lead to fragmentation, inefficiency, and lack of credibility.

2.2 The World Bank and the Forest Sector

The current overall World Bank Forest Strategy, approved in 2002, aims at slowing deforestation and forest resource degradation as well as enhancing the contribution of forests to sustainable and equitable economic development. Due recognition is given to the use of forest resources to improve the livelihoods of forest-dependent people. It applies to all types of forests and forest-rich as well as forest-poor countries. The strategy recognizes the need to improve forest management in production forests outside protected areas. Greater emphasis is now placed on ways to enhance the quality of governance, particularly on combating illegal logging, related trade, and corruption. Adequate consideration of inter-sectoral linkages is called for, as well as the integration of forest issues in macro and sectoral planning exercises, such as the Bank’s Country Assistance Strategies (CASs). Finally, the strategy advocates for partnerships at the global as well as regional and country levels.

The Strategy centralizes the Bank’s action on three major closely interrelated pillars:

- Harnessing the potential of forests to reduce poverty;
- Integrating forests in sustainable economic development; and
- Protecting vital local and global environmental services and values.

REDD is a cross-cutting concept. It represents a new and innovative financial instrument, and is relevant to all three pillars. REDD activities in the Bank will not replace ongoing programs and initiatives but will instead be developed to enhance existing programs.

Achievements in the Bank's forest strategy agenda so far help prepare the platform for successful design and demonstration of the REDD framework. Notable areas of achievement in this respect include:

- **Leading global efforts to improve forest governance and control illegal logging:** Bank activities on forest governance have supported the creation of a political climate for high-level regional discussions on improvement in governance and increased transparency and accountability in the sector. The Bank, in cooperation with regional partners, has facilitated three regional Ministerial declarations on forest law enforcement and governance (in East Asia, Africa, and Europe and North Asia), and is now also engaged in catalyzing processes in Latin America. Governance and legal frameworks will be crucial when discussing the ownership of ERs and the distribution of future benefits from REDD.
- **Promoting forest certification and sustainable forest management:** The Bank has influenced the development of sustainable forest management (SFM) standards and independent certification schemes, including the development of international standards to assess the quality of certification schemes. Certified forest area has expanded significantly in Bolivia, Russia and Eastern Europe, and prospects for SFM have increased in countries such as Cameroon and Indonesia.
- **Facilitating responsible corporate investments:** The Bank is working in collaboration with the IFC, and through the World Bank/WWF Alliance and the Program on Forests (PROFOR) to assist client country governments in China, India, Kenya, Russia and South Africa to attract responsible domestic and foreign private sector investments to finance conservation and sustainable management of forest resources. This is achieved through improved investment climates, development of small- and medium-sized enterprises, and fostering company-community partnerships.
- **Enabling the conservation of ecosystem services:** Global Environment Facility grants (totaling about US\$100 million since 2002) have been associated or blended with IDA/IBRD capacity building to support the biodiversity/protected areas components of sector-wide programs in Cameroon, Gabon, Georgia, Kazakhstan, and many other countries.

Going forward, the Bank plans to further: (i) strengthen its poverty alleviation and forest governance to enable stakeholder participation in the formulation and implementation of policies, strategies, and programs in efforts to foster community ownership and long-term sustainability of forests; (ii) enhance the role of forests as an engine of economic growth and development; (iii) strengthen the attention to forests; (iv) assist countries to integrate the global forest agenda and associated development opportunities into their own national strategies and policies; and (iv) ensure effective application of Bank safeguard policies in its support to forest projects.

Through strategic partnerships and programs such as PROFOR, the Forest Law Enforcement and Governance (FLEG) initiative, and the World Bank/WWF Alliance, the Bank is leveraging resources, aligning stakeholder interests, enabling innovation, improving outreach, and scaling-up impacts. The Bank has been consulting international stakeholders on the appropriate structure for a broader partnership framework. Entitled the "Global Forest Partnership" (GFP), it would strengthen the international forest policy dialogue, and explore promising sources of funding such as payments for environmental services. In addition it would assist public-private partnerships to reach maximum potential. Further, the GFP could help facilitate the design of programs with the objective to safeguard the ecological, economic and social functions of forests, including the increasingly recognized functions to mitigate global climate change impacts.

The Bank is also working on a gap analysis that suggests that, despite the large number of initiatives designed to address deforestation and improve forest management, efforts are fragmented and financial resources are lacking. The UNFCCC Secretariat itself has identified an investment gap of US\$5-6 billion a year to harness the potential of forests to mitigate climate change (through both REDD and A/R).

2.3 The World Bank and Carbon Finance

More than a decade ago, the World Bank began its involvement in building the carbon market and prototyping carbon finance operations. After years of analytical work and participation in the UNFCCC Activities Implemented Jointly program, the Bank launched its first public-private partnership, the Prototype Carbon Fund (PCF), in April 2000.

The PCF was established with US\$180 million in capital, with the participation of 17 companies and 6 governments. In many respects, the PCF has been the pioneer of the global carbon market, developing methodologies and piloting transactions years before the Kyoto Protocol entered into force. Over the past eight years, carbon finance activities at the Bank have grown from the PCF to include ten carbon funds and facilities with a total capitalization of more than US\$2 billion.^{1/} These funds cater predominantly to parties seeking to comply with obligations in the first Kyoto commitment period (2008–2012).

The paper entitled “The Role of the World Bank in Carbon Finance: An Approach for Further Engagement,” approved by the Bank’s Board of Executive Directors on December 6, 2005, describes the World Bank role in the carbon market. It lays out three objectives for the Bank’s carbon finance business as it matures:

1. To ensure that carbon finance contributes substantially to sustainable development, beyond its contribution to global environmental efforts;
2. To assist in building, sustaining and expanding the international market for carbon emission reductions and its institutional and administrative structure; and
3. To further strengthen the capacity of developing countries to benefit from the emerging market for ER credits.

The key to the success of climate change mitigation efforts is the development of a global market for GHG ERs, whereby private capital investments in clean energy technology, sustainable agriculture and forestry offer a financial return from the sale of GHG ERs.

At the early stages of the Bank’s engagement in the carbon market, the Bank’s objective was to catalyze the nearly non-existent international market for GHG ERs. The Bank recognized that the carbon market could result, over the longer term, in considerable financing for developing countries to increase the efficiency of their energy industries and improve their environment. Yet institutional hurdles created substantial risks for potential purchasers in OECD countries.

When the Kyoto Protocol came into force in February 2005, the demand for GHG ER credits expanded considerably. Many developing countries have become actively engaged in carbon finance, but others have not yet been able to benefit. The Bank and other international lending institutions have the opportunity to use carbon finance to increase energy efficiency, build sustainable forest management, and improve land practices in agriculture—all while setting up a cost-effective mechanism to address climate change.

Going forward, the Bank aims to have greater impact on climate change mitigation and poverty alleviation through the use of carbon finance by: (i) supporting long-term investments to promote transition to low-carbon economies; (ii) shifting from a project-by-project approach to programs of investments; (iii) systematically integrating carbon finance into public and private investment

decisions; (iv) incorporating and mainstreaming carbon finance into Bank lending and other operations, and ensuring complementarities with other financing instruments (Climate Investment Funds, Global Environment Facility, etc.); and (v) expanding carbon finance to regions and sectors that do not currently participate. To help achieve these objectives, the Bank proposed the creation of two new facilities, namely the Carbon Partnership Facility and this FCPF.

2.4 FCPF Development

Consultations on an initiative that would scale up the impact of the BioCarbon Fund for standing forests by supporting capacity building and providing performance-based payments was first discussed in the Bank in 2006. External consultations started in the fall of 2006. Germany, as part of the G8 summit agenda, organized two consultations, in February and April 2007, respectively, in which developing countries, G8 countries, and a number of non-governmental organizations participated. This effort led by Germany culminated in encouragement, at the G8 Summit in Heiligendamm in June 2007, for the World Bank to design a “forest carbon partnership.”⁴

The Bank convened a two-day design workshop in July 2007, at which workshop participants adopted the name Forest Carbon Partnership Facility (FCPF) and agreed on basic terms for the FCPF. This agreement allowed Bank Management to present the FCPF to the Bank’s Board of Executive Directors. On September 25, 2007 the Board of Directors unanimously authorized the establishment of the FCPF.

Internal and external consultations continued throughout 2007, including large meetings in Australia and Brazil. In November 2007, the Bank convened an additional four-day design workshop at which more than one hundred participants from dozens of countries, international organizations and non-governmental organizations participated. The Bank synthesized the results of these discussions in the first draft of this Information Memorandum, which was posted on the FCPF website on December 3, 2007.

On December 11, 2007, during the Conference of the Parties in Bali, Indonesia, the President of the World Bank chaired a public event formally announcing the FCPF. On that day, ten countries and one non-governmental organization pledged about US\$165 million to the FCPF. Two more countries have since made formal pledges.⁵

From December 2007, the Bank has conducted further internal and external consultations. Among the external consultations the following were included: First, three regional workshops were organized in Nepal, Burundi and Bolivia to consult with indigenous peoples and forest dwellers on climate change, carbon finance, REDD and the FCPF. Second, discussions took place with a number of countries and organizations on the question of valuing Emission Reductions in the FCPF’s Carbon Fund.

⁴ Para. 56 of the Heiligendamm communiqué provides that: “Reducing, and in the long term halting deforestation provides a significant and cost-effective contribution toward mitigating greenhouse gas emissions and toward conserving biological diversity, promoting sustainable forest management and enhancing security of livelihoods. To this end, we will encourage the establishment of a pilot project dedicated to building capacity, creating and testing performance-based instruments to reduce emissions from deforestation in developing countries, in support of and without prejudice to ongoing UN climate change discussions. We therefore encourage the World Bank, in close cooperation with the G8, developing countries, the private sector, NGOs and other partners, to develop and implement such a forest carbon partnership as soon as possible.”

⁵ The following countries and organizations have pledged financial support to the FCPF as of May 25, 2008: Australia, Denmark, Finland, France, Germany, Japan, the Netherlands, Norway, Spain, Switzerland, the United Kingdom, the United States of America, and The Nature Conservancy.

In the meantime, interest in the FCFP has continued to grow among developing countries. As of May 25, 2008, 39 tropical and sub-tropical countries had requested participation in the FCPF, and 20 of those had submitted a Readiness Plan Idea Note for consideration by the Readiness Mechanism.⁶

⁶ The following developing countries have expressed interest in the FCPF as of May 25, 2008: Argentina, Bolivia, Cameroon, Central African Republic, Colombia, Costa Rica, Democratic Republic of Congo, Ecuador, El Salvador, Ethiopia, Gabon, Ghana, Guatemala, Guyana, Honduras, Indonesia, Kenya, Lao PDR, Liberia, Madagascar, Malaysia, Mexico, Nepal, Nicaragua, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Republic of Congo, Senegal, Sierra Leone, Sudan, Tanzania, Thailand, Uganda, Vanuatu and Vietnam.

Chapter 3: Operating Arrangements under the Readiness Mechanism

This chapter describes a phased approach for achieving “readiness” and provides guidance on the steps and approval mechanisms for REDD activities within the FCPF. It also describes the technical areas for which REDD countries can request support, namely (i) establishment of a reference scenario for emissions from deforestation and forest degradation; (ii) adoption of REDD Strategies; and (iii) design of a REDD monitoring system.

3.1 Objectives

The Readiness Mechanism is designed to assist developing countries to reach a capacity level at which they will be ready to participate in a future system for positive incentives to REDD. This assistance will include, but is not limited to, support for:

1. Developing a national reference scenario for REDD;
2. Adopting a national REDD strategy that would seek to reduce emissions and at the same time conserve biodiversity and enhance the livelihoods of forest-dependent indigenous peoples and other forest dwellers. The REDD strategy should reflect each country’s priorities and be mindful of its constraints; and
3. Designing and, if possible, implementing accurate measurements, monitoring and verification systems to enable countries to report on emissions from deforestation and forest degradation.

The FCPF Readiness Mechanism is primarily focused on the REDD-specific agenda and cannot cover all forest-related issues, nor will it aim to become a focal program that pretends to offer a comprehensive solution to the broader challenges of rural development. The Readiness Mechanism will build on existing country activities that support sustainable forest resource management and sustainable land use programs at the national level.

The FCPF will seek to coordinate Readiness activities with other relevant programs supported by bilateral and multilateral donors and international organizations in order to increase efficiency. Such partnership is also important for the future implementation of recommendations that arise from the Readiness process, including investments in the forest and agricultural sectors and improved livelihoods. The national government of each REDD Country Participant would be expected to play the coordinating role. However, given that key actors will be meeting as the Participants Assembly and Participants Committee, the FCPF itself may also serve as a framework to assist with coordination.

In some cases, planning and implementing activities at the regional level may be justified. Regional intervention would be warranted if it is deemed more effective or more efficient to tackle problems at a level above the nation state, for example to take into account international ecosystem dimensions (relevant to contain leakage), or economies of scale in monitoring. However, a regional intervention would not come at the expense of national efforts and would only be envisaged if the countries concerned agreed.

3.2 Definition of Readiness

Readiness can be defined in various ways. Readiness *stricto sensu* can be defined as setting a national reference scenario, preparing strategies to reduce emissions from deforestation and forest degradation, and developing the capacity to monitor emissions over time. However, considering

the complexity of deforestation and degradation, Readiness in a broader sense means that a country meets the more fundamental conditions for sustainable use of forest resources, such as relevant issues of forest governance, land tenure, law enforcement, etc. It also means that a country has put in place mechanisms to address the real causes of deforestation, can create and enforce its policies on deforestation and forest degradation, and has been able to reach out to forest-dependent communities, including indigenous peoples and other forest dwellers, that may play an important role in the implementation of such policies. Experience shows that a country will ultimately have to be prepared to address these issues before reducing emissions from the forest sector in a sustainable way.

For the purposes of the FCPF, the following “core” and “associated” elements of Readiness are defined.

Core elements of Readiness:

- **Reference Scenario:** The country would establish a credible reference scenario on REDD, preferably based on methodological guidance from the UNFCCC or other guidance that represents international good practice, taking into account recent historical emissions and, in line with the specific circumstances of each country, a credible assessment of future emissions. In the absence of additional guidance from the UNFCCC, different approaches would be tested based on national priorities and circumstances, building on IPCC 2003 Good Practice Guidance and 1996 and 2006 Guidelines. Readiness would require that such a Reference Scenario has been established;⁷
- **REDD Strategy:** Once the country knows its reference emissions levels it may decide that it wants to reduce its emissions below these levels and specify the broad lines of how much, how, where, and at what cost it intends to do so. Based on an analysis of the causes of deforestation and forest degradation, an efficient, fair and sustainable strategy to reduce emissions, resulting from meaningful consultations with the full range of stakeholders, would be developed, complementing the existing national policy framework. Special efforts would be made to reach out to forest dwellers including indigenous peoples and ensure that they participate in, and where appropriate benefit from, Readiness activities. The strategy would support the country’s overall policy and legal framework as it relates to forests, land use, customary rights, etc. The strategy would be fully country-owned and would refer, for example, to policies that address cross-sectoral issues, community forest management, and/or macroeconomic drivers of deforestation and forest degradation. It would identify the options for the most cost-effective and socially acceptable measures to reduce emissions and analyze the potential for further improvements of forest law enforcement, land tenure and governance structures relevant to implementing REDD activities. Furthermore, the strategy would need to define the institutional responsibilities, ownership of Emission Reductions, future regulation of the distribution and use of future revenues from REDD, and would attribute rights and responsibilities to the various actors expected to be involved in REDD; and
- **Monitoring System:** A basic system for monitoring and verifying REDD would be designed and implemented. National institutions would be trained and forest data reviewed and adapted to the purposes and standards of REDD. The country would be able to report on emissions from deforestation, evolving toward the use of an IPCC Tier Two approach with the help of capacity building provided by the FCPF and other entities, and potentially evolving toward a Tier Three approach in those countries where

⁷ Good Practice Guidance for Land Use, Land-Use Change and Forestry, 2003, available at <http://www.ipcc-nggip.iges.or.jp/public/gpplulucf/gpplulucf.htm>

conditions and capacity building would enable it. Readiness would require that such a Monitoring System has been implemented.

Associated Elements of Readiness:

- In addition to measuring, monitoring and verifying for emissions and emission reductions, the Monitoring System could include other components and indicators that could be relevant for national law-enforcement activities and other purposes of national interest; and
- Data from remote sensing and inventories would be collected to further upgrade data on stocks and stock changes of forest carbon and biomass in order to raise accuracy of reporting to a higher IPCC reporting Tier. Depending on national priorities, monitoring, reporting and verification would also permit the inclusion of forest degradation. The monitoring and reporting system would also include indicators of additional benefits (in particular biodiversity and livelihoods).

Most countries would need considerable time to satisfy all associated requirements for Readiness. For this reason, a step-wise approach that accommodates gradual improvements over time is proposed.

3.3 Eligibility of Countries and Selection Criteria

All borrowing member countries of the IBRD or IDA that are located in a subtropical area or tropical area are eligible REDD Participant Countries.⁸ The Steering Committee in the interim and eventually the Participants Committee would select REDD countries based on their submission of a Readiness Plan Idea Note (R-PIN) and in accordance with the following criteria. This selection process will also be informed by the R-PIN reviews provided by the Technical Advisory Panel(s). The selection criteria (which may be further elaborated by the Participants Committee if necessary) are:

- **Relevance of the country in the REDD context:** Priority would be given to countries with the following characteristics: (i) substantial forest area and forest carbon stocks; and (ii) relevance of the forests in the country's economy, including relevance for poverty reduction, the livelihoods of forest-dependent indigenous peoples and other forest dwellers, and clarification of land tenure regimes;
- **Quality of the Readiness Plan Idea Note:** The Quality of the R-PIN would be evaluated on the following criteria: (i) ownership of the proposal by both the government and relevant stakeholders; (ii) consistency between national and sectoral strategies and the proposed REDD Strategy; (iii) completeness of information and data provided; (iv) clarity of responsibilities for the execution of REDD activities to be financed; and (v) the feasibility of proposed activities to reduce deforestation and forest degradation and their likelihood of success;

⁸ For the purpose of the FCPF Charter, Subtropical Area means the zones of the Earth immediately north and south of the Tropics and are comprised between roughly 35° of latitude north and 35° of latitude south. The concept of a forest carbon partnership has focused on tropical and sub-tropical countries, leading to the current FCPF construct, for the following main reasons: (i) It was the tropical countries that brought the REDD issue to the UNFCCC negotiations agenda; (ii) the non-tropical forest countries that are part of Annex I to the UNFCCC and Annex B to the Kyoto Protocol can already benefit from carbon finance for reducing deforestation and degradation in virtue of Kyoto Protocol Article 3, paragraphs 3.3 (deforestation) and 3.4 (forest management), and Article 6 (Joint Implementation); and (iii) the bulk of emissions from deforestation and degradation emanates from tropical and sub-tropical countries.

- **Geographic and biome balance:** Selection would take into account the need to balance experiences and learning across different continents and across the world's main forest biomes; and
- **Variety of approaches:** Consideration would be given to approaches that can contribute to the learning objective of the FCPF, by selecting country proposals that: (i) suggest innovative and/or comprehensive strategies/programs and approaches to tackle deforestation and degradation; (ii) focus on innovative and/or advanced concepts of monitoring, reporting and remote sensing of forest degradation, biodiversity protection and social benefits; (iii) aim to test new mechanisms and distribution methods of REDD revenues; (iv) provide regionally important leadership in addressing REDD or in technical areas relevant to Readiness; 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.

3.4 Selection into the Readiness Mechanism

The R-PIN represents the first step for accessing financing under the Readiness Mechanism. With the R-PIN, an eligible REDD Country describes its overall vision for REDD, explains the situation and challenges of the country, and indicates the work areas for which it will request assistance. Based on comments and reviews provided by a Technical Advisory Panel and the Bank on its R-PIN, a REDD Country which is selected by the Participants Committee as a REDD Country Participant, will then develop a Readiness Plan, which elaborates on the R-PIN. Finally, implementation of the Readiness Plan results in a Readiness Package, which contains at least the three core elements described above (namely, a national Reference Scenario, a REDD Strategy, and a Monitoring System).

The process for selecting an eligible REDD Country into the Readiness Mechanism is comprised of the following steps:

1. The Eligible REDD Country prepares and submits an R-PIN to the World Bank Country Director and/or Facility Management Team (FMT). In this R-PIN, the country reports its current data on forests, deforestation and degradation and emissions from the forest sector. The country outlines the key causes of deforestation, how it plans to reduce its emission rates, based on current information and strategies. The country further outlines the activities for which it requests support from the FCPF with a view to reaching Readiness;⁹

⁹ The R-PIN template is available at www.carbonfinance.org/fcpf. In the future, www.forestcarbonpartnership.org will also be used.

Readiness Plan Idea Note

In the R-PIN the Country addresses the following issues based on available data and information:

- **Statement of the deforestation and degradation problem:** Information on the drivers and agents of deforestation and degradation; estimations of total land area subject to deforestation and degradation and resulting emission levels; and location and types of forest ecosystems.
- **Responsibilities and legal framework:** Roles of the relevant institutions and agencies (at federal, state and municipal levels) responsible for policy and program implementation and law enforcement, monitoring and promotion of sustainable land use strategies; legal framework for these activities; and designation of the national focal point for REDD activities.
- **Current strategy:** Description of the activities currently under implementation by the Government and stakeholders; challenges for further improvement; methods for measuring emissions, including uncertainties and data gaps; and description of the way that different stakeholders, including forest-dependent indigenous peoples and other forest-dependent communities participate in the design and implementation of those strategies or national plans.
- **Assistance requested:** Listing of the areas where the country requests support from the Readiness Fund, including historical emissions and modeling of future emissions from deforestation and degradation; adoption or review of national REDD strategies; design and implementation of a Monitoring System; financial assistance for consultations with stakeholders; capacity building and technical assistance at different levels.

2. The FMT reviews the R-PIN for completeness and consistency with the FCPF rules and modalities. The FMT does not approve or disapprove the document, though it may point to deficiencies, suggest improvements and ask for clarifications as a way to improve the R-PIN quality;
3. A summary of Bank comments will be provided to the Technical Advisory Panel performing the technical review of the R-PIN and to the Participants Committee (or the Steering Committee during the interim arrangement). The Bank review is qualitative, not evaluative, and may include comments on: (i) the country's potential capacity to undertake REDD activities outlined in the R-PIN; (ii) the experience of Bank engagement in sector policy or country dialogue or other relevant work to date; (iii) relevant governance and legal issues; and (iv) delivery and performance of natural resource management programs, and/or other opportunities or constraints;
4. The R-PIN is submitted to the Technical Advisory Panel (TAP) for its primary technical review. The TAP's reviews are synthesized and shared with the Participants Committee (PC) or Steering Committee (SC) for a decision;
5. The PC/SC considers the R-PIN and the TAP's summary of findings and makes one of three possible determinations:
 - (i) The PC/SC approves the R-PIN based on the criteria outlined above. Where necessary, the PC/SC may request improvements or clarifications; or
 - (ii) The PC/SC requests that the R-PIN be improved and resubmitted for consideration at a later date. R-PINs may be revised and resubmitted twice and comments from the R-PIN review process may be provided to help guide improvement; or

- (iii) The PC/SC finds that the R-PIN (in its initial or revised form) may not be adequate for country participation in the FCPF Readiness Mechanism. In this case, an Eligible REDD Country would not become a REDD Country Participant in the FCPF. However, the PC/SC or the FMT may recommend to it other potential resources for REDD capacity building efforts.
6. The PC/SC may also provide guidance on how each country can prepare the more elaborate Readiness Plan;
 7. Acceptance of any R-PIN by the PC/SC enables that country to become a REDD Country Participant in the FCPF. The terms of participation are set out in a REDD Country Participation Agreement which is entered into with the Bank acting as Trustee of the Facility. In addition, it is envisioned that most of the selected REDD Country Participants will wish to enter into a Grant Agreement with the Bank acting as Trustee of the Readiness Fund, in order to receive financial support for Readiness activities. However, unlike the REDD Country Participation Agreement, entering into a Grant Agreement with the Bank is not a requirement for REDD Country participation in the FCPF. A REDD Country Participant can also seek other funding sources. The FMT would endeavor to match country funding needs and donor capabilities and priorities. Any funding from the Bank would trigger the application of its safeguard policies;
 8. A country whose R-PIN has been determined by the PC/SC to be inadequate for Participation in the Readiness Fund will not become a REDD Participant Country and will not be able to avail of the Readiness activities and process of the FCPF.

3.5 From R-PIN to Readiness Plan

The REDD Country may have to undertake some or all of the following steps to be able to turn its R-PIN into a Readiness Plan: (i) assess availability and quality of data (including identification of data gaps); (ii) identify technical assistance and capacity building needs; (iii) consult and communicate on REDD; (iv) prepare terms of reference for further studies to be financed under the Readiness Plan, which would include provisions to analyze potential impacts of REDD strategies. A budget would be allocated to the REDD Country Participant for preparing the Readiness Plan.

Readiness Plan

The Readiness Plan elaborates on the R-PIN and contains more detailed information on the country's forest policy, including the legal and institutional framework, the country's monitoring system, and its strategy to reach Readiness. It would include concrete terms of reference for the elaboration of the REDD strategy; describe the details of the stakeholder consultation process including how to involve affected communities, indigenous peoples and forest dwellers. The Plan would present approaches a country would consider to elaborate on the reference scenario and the monitoring strategy design. The Readiness Plan would further include an implementation schedule and would outline clear responsibilities and milestones. The Readiness Plan would also include a communications and outreach plan.

When the REDD Country Participant is ready, it submits its Readiness Plan to the FMT. Next, the FMT checks that the Readiness Plan is complete and consistent with the FCPF rules and modalities and then presents it to the PC for approval after a TAP has reviewed it. For those countries availing of the resources of the Readiness Fund, a budget is then allocated for the implementation of the Readiness Plan as per the Grant Agreement.

3.6 Stepwise Approach to Implementing the Readiness Plan

Implementation of the Readiness Plan can be divided into two phases, though this is not required:

1. The first phase outlines the analytical basis for the Readiness process, presenting options for Reference Scenarios and outlining the development and design of a Monitoring System; and
2. In the second phase, those strategy options are further reviewed with key stakeholders and the final design is chosen. Based on the selected design, a Monitoring System is implemented and capacity is developed.

For achieving readiness, countries may want to adopt a stepwise approach that would follow interdependent steps as laid out in the table below. In this process, each subsequent step is contingent on the delivery of some or all of the previous step(s). The Readiness process not only refers to data generation and the technical capacity of progressing in deforestation/degradation avoidance. It also entails a consensus-oriented process that results in a meaningful and proactive collaboration among relevant stakeholders for achieving progress. Not all countries will follow the same process, as some countries can rely on existing data and strategies.

Stepwise Approach to Achieving Readiness

<i>Analytical work for broad in-country discussion on REDD</i>			
Readiness Plan: 1st Step – Analytical Work	Reference Scenario	REDD Strategy	Monitoring, Reporting
	Assess recent historical emission levels	Identify possible options for REDD strategies, including through economic and social analysis	Establish requirements for monitoring and reporting
	Assess drivers of deforestation and degradation	Analyze governance, policy and legal framework	Build capacity of national institutions on monitoring of forest cover changes and carbon stock assessments
	Identify different options for Reference Scenarios (incl. modeling of future emissions)	Consultation process on REDD Strategies involving all stakeholders	Design Monitoring System and estimate costs for implementation, maintenance and training
		Preliminary scoping of required policy changes and identify priority interventions and regions	
<i>Adopt Reference Scenario and REDD Strategy, implement Monitoring System</i>			
Readiness Plan: 2nd Step – Adoption	Reference Scenario	REDD Strategy	Monitoring, Reporting
	Conduct consultation on possible Reference Scenarios	Identify required fiscal, institutional and policy reforms	Implement Monitoring System
	Publish selected Reference Scenario	Identify implementation channels (incl. sub-national operations), legal arrangements distribution mechanisms of future revenues from REDD, and social and environmental impact assessment	Training and capacity building on remote sensing and monitoring activities
	Identify upfront investment needs (i.e., capacity building, equipment, infrastructure, technical assistance, etc.) and analysis of possible investment resources		

3.7 Readiness Package

As the REDD Participant Country completes implementation of its Readiness Plan, it may prepare a Readiness Package for submission to the FMT. The Readiness Package represents the final product of the Readiness process. It describes: (i) how the Monitoring System has been designed and implemented; (ii) the Reference Scenario that has been adopted and published; and (iii) the REDD Strategy that has been prepared and vetted through a multi-stakeholder consultation process.

The REDD Country Participant can submit the Readiness Package to the FCPF for endorsement. Based on the advice rendered by the Technical Advisory Panel, the Participants Committee would endorse the Readiness Package and declare the REDD Country “ready.” The endorsement would also clear the REDD Country for a potential purchase of emission reductions by the Carbon Fund.

3.8 Ad Hoc Technical Advisory Panels

One or more Ad Hoc Technical Advisory Panel(s) (TAP) may be established by various bodies of the FCPF, including the Facility Management Team and the Participants Committee, to provide scientific, technical and other advice to their operations. Each TAP shall be independent and impartial.

TAPs would perform ad hoc functions at the request of one of the FCPF governance bodies, including providing technical reviews of or other advice on (i) R-PINs submitted by eligible REDD Countries; (ii) Readiness Plans; (iii) progress made in the implementation of Readiness Plans; and (iv) Readiness Packages. Moreover, TAPs would render advice on specific issues, as requested, such as guidance on methodologies for Reference Scenario establishment; use of remote sensing, economic, or other data; monitoring system design and implementation; assessment of additional benefits from REDD activities such as rural livelihood and biodiversity conservation; role of forest-dependent indigenous peoples and other forest dwellers in Readiness Plan design and implementation; methods for valuation of carbon and other benefits from REDD; the quality of Readiness Plans' consultative processes; or the quantification of forest degradation.

TAP members will be selected in their individual capacity based on their areas of expertise and experience. For the functions that they will be asked to perform, TAP members are to be guided by the request and terms of reference provided by the requesting body of the FCPF, but will perform their work independently of substantive direction from the FCPF governance bodies and FCPF Participants and Observers.

It is expected that the TAP members will be able to do most of their work in the form of desk reviews, but face-to-face meetings, videoconferences, teleconferences, and participation in other technical meetings or conferences are likely to be necessary for discussing, developing, and presenting advice on technical issues. TAP members will be compensated for their time and expenses. The World Bank has invited nominations to each TAP from countries and organizations, and is assembling a roster of potential TAP members based on draft terms of reference for specific functions and issues. TAP members will be asked to state any potential conflict of interest in the anticipated work (for example their direct involvement in the preparation of a country's R-PIN), and the relevant FCPF governance body will review these statements. The roster of qualified experts will include a number of experts on each relevant topic, seeking to reflect geographical and other diversity, and thus allow a quick turn-around in the TAP's work. To ensure the independence and integrity of the TAP process, summaries of TAP comments and reviews will be made public via the FCPF website.

3.9 Areas Eligible for Funding under the Readiness Mechanism

Financial support from the Readiness Fund would take the form of grants executed by the REDD Country itself. The Bank, acting on behalf of the FCPF, and consultants hired by the Bank would not be involved in choosing specific strategy options, but in facilitating the choice of national actors through analytical work, capacity building for national institutions and key stakeholders, and consultations. The split of responsibilities between the REDD Country and the Bank, which would be aimed at making the Readiness process as efficient as possible, would be discussed and agreed upon between the two parties and comply with the FCPF's national sovereignty principle and the Bank's Operational Policies and Procedures and guidelines on conflicts of interest.

3.9.1 Stakeholder Consultations and Communications

Many past policies and programs implemented by national (or regional) governments targeting the sustainable use of forest resources have failed to recognize the critical stewardship of civil society and forest-dependent, community-based organizations, including indigenous peoples. As a consequence, tropical forests have continued to disappear and, with them, large amounts of greenhouse gases have been emitted into the atmosphere. The FCPF must learn from these experiences as well as the more successful ones. The consultation process to be set up by each country participating in the FCPF's Readiness Mechanism would provide opportunities to improve the REDD strategies by identifying the drivers of deforestation, defining solutions for deforestation and solutions for a fair and adequate financial distribution mechanism, and providing a process-based mechanism to take different views into account. The country-led Readiness process will include an intensive stakeholder consultation process designed to:

- Inform relevant stakeholders in the REDD Countries about the substance and meaning of REDD, the IPCC Good Practice Guidance, how capacity building and positive incentives for REDD could benefit the country and specific stakeholder groups within it, and transform rural livelihoods and forest protection. This is of absolute importance as the knowledge on REDD is generally very limited;
- Identify affected stakeholders; work with relevant stakeholders on the preparation of a consultation and communication plan that would define the procedures and mechanisms for stakeholder consultation prior to the implementation of Readiness activities. The plan would involve responsibilities, a system for voicing grievances and disclosing policies throughout the Readiness process, in particular for the setting of REDD strategies and operational framework for REDD. Special attention will be given to forest-dependent indigenous peoples and other forest dwellers, in the debate on concrete solutions for reducing deforestation and degradation. The implementation of the consultation plan is one of major requirements of the Readiness Package and also required by the World Bank safeguard policies; and
- Involve key national and international scientific and political stakeholders in the discussion of issues related to Readiness.

3.9.2 Reference Scenario

Estimating reductions in emissions from deforestation and degradation caused by national or regional interventions requires a Reference Scenario against which future emissions can be compared. The Reference Scenario could be either strictly based on historical emissions and include an adjustment factor to take future evolutions into account, or even involve a projection of future emissions, depending on country circumstances and preferences. The principle is that the Reference Scenario must be credible. Setting and adopting the Reference Scenario is not a purely technical task. It involves predictions about the future as well as policy decisions. Existing governmental development plans and programs (for infrastructure, energy, agriculture and urban development) would provide orientation for such modeling exercises. The FCPF would test different models and approaches to Reference Scenarios based on country preferences and priorities.

Following IPCC Good Practice Guidance and other methods as needed, the Reference Scenario could build on the analysis of available data at the country level. Additional data and services could be provided and a forest resource database could be established. This database would

provide a point of reference that is both transparent and accessible to all parties engaged in the process.¹⁰

Based on this analysis, which in most cases would constitute a desk review of existing knowledge of deforestation and degradation dynamics in the country combined with expert meetings and consultations with stakeholders, a national Reference Scenario would be adopted and published. Future guidance from the UNFCCC process may modify the procedures to be followed under the FCPF.

The task of setting the Reference Scenario should be led by the national government in close collaboration with national scientific institutions. Technical support provided through the FCPF will be limited to basic orientation, financial support and learning from other countries, to guarantee country ownership of this exercise.

3.9.3 REDD Strategy

The formulation of a REDD Strategy is one of the key elements under the Readiness mechanism. Countries are at different stages concerning the development and implementation of strategies on forestry and land use, including deforestation and degradation. Therefore, not all countries will need support for all the steps suggested below as not all countries will need support to comply with these themes.

Based on the identification of the drivers of deforestation, the first step towards a REDD Strategy is to identify the regions and/or sectors (e.g., agriculture, energy, infrastructure, logging and timber industry, mining, etc.), in which potential policy changes, investments and other interventions will most likely result in reduced deforestation and/or degradation.

Analytical work to prepare strategy options could involve, but is not limited to, the following elements:

- Opportunity cost analysis to provide guidance on best cost-effective options and consequently possible priorities for a REDD strategy;
- Analysis and discussion of a set of existing policy and regulations and their impact on deforestation and an analysis of regulatory changes and investments needed in the priority areas that would most likely lead to Emission Reductions over time, with a focus on long-term and structural changes;
- Political and institutional feasibility of proposed actions;
- Identification of the contribution to the maintenance of forests by forest-dependent populations, including local communities, forest-dependent indigenous peoples and forest dwellers;
- Analysis of proposed solutions on their environmental and social impacts and if those solutions would trigger the application of safeguard policies; and
- Review of the country's institutional framework for forest governance and options for financial incentive mechanisms. New REDD interventions will need a clear legal basis, including a regulatory framework enabling financial transactions to reach out to the targeted beneficiaries. The countries should adopt rules governing payment and

¹⁰ This point of reference is defined through past rates of deforestation and forest degradation. With this knowledge, plus additional cross-sectoral data and plans, future rates of deforestation and forest degradation could be conceptualized.

distribution mechanisms, and criteria and indicators for eligible programs and projects. The rules should take into account the rights of forest dwellers and indigenous peoples, existing land-use structures, and the efficiency and equity of distribution mechanisms.

Other activities could be carried out in the following areas:

- Capacity building and other work on forest governance, especially to tackle illegal logging and clear cutting, support land tenure programs and law enforcement, including in the context of ongoing efforts under the Forest Law Enforcement and Governance (FLEG) initiative and other complementary programs;
- Specific risk assessments to help inform stakeholders on the implementation and long-term feasibility of potential interventions;
- Tools for planning and measurement of additional social and biodiversity benefits in REDD activities;
- Assessment of investment needs (e.g., for institutional strengthening, credit lines, policy changes, capacity building, equipment, etc.) that are required to proceed with the implementation of REDD Strategy options, and identification of possible investment partners and implementation schedules; and
- Identification of roles and responsibilities of forest dependent populations in the REDD context.

3.9.4 Monitoring of REDD Activities

A key element of Readiness is the design, development, and, possibly, implementation of an integrated system of measurement, monitoring and verification (MMV) of emissions from deforestation and forest degradation at the national scale. This system may fulfill a range of functions, including monitoring of the effectiveness of the REDD Strategy and its implementation against the Reference Scenario, but also monitoring and evaluation of the effects of REDD Strategy implementation beyond climate change mitigation, e.g., livelihoods, biodiversity, rural development, forest law enforcement, etc. It is the country's sovereign decision to define the range of functions that the system should be able to cover.

An MMV system is likely to include a wide range of data sets and activities of a varied nature, including remote sensing data acquisition and processing of land use and land cover change; ground-truthing of those data (e.g., field work correlating the satellite imagery with the vegetation and land use type and activities on the ground); use of traditional forest inventory plots and data; carbon density data, etc.

The objectives of the MMV system will be determined by each country, consistent with general FCPF guidance. These objectives are likely to reflect the following principles:

- Building, where feasible, on existing national inventory systems and investments in data acquisition and processing already familiar to a country;
- Supplementing those systems with targeted acquisition of new data and capacity, to fill in the identified gaps and technical assistance;
- Developing transparent and robust MMV systems that are targeted to provide useful programmatic data and reporting in a cost-effective and timely manner, with acceptable levels of uncertainty;

- Designing a system to provide a credible and transparent Reference Scenario, using internationally accepted and/or FCPF guidance and protocols, against which changes can be measured;
- Enhancing human and institutional capacity via FCPF technical assistance in cooperation with other partners, to ensure MMV operation by in-country experts;
- Using the principle of conservatism in accounting and reporting REDD activities and estimating the effectiveness of intervention strategies;
- Conducting a possible third-party assessment of the MMV system and results, in accordance with common practices and international standards;¹¹ and
- Achieving consistency or complementarity with other monitoring and reporting systems and objectives (e.g., biodiversity, law enforcement, socio-economic development), as feasible.

Remote sensing data for land cover change are generally available for the 1990s and 2000s for most countries. Significant advances are being made in the development of methods and protocols for the use of these data in estimating REDD-relevant variables, like forest cover change over time. However, the estimation of carbon stocks usually requires field monitoring plots or forest inventory data.

Countries will need to evaluate the trade-offs involved in selecting the design, data, and implementation of a MMV system.¹² This decision is likely to depend on the technical demands for such a system (e.g., monitoring of degradation, etc.). In addition, the country's capacity, natural resource conditions and institutional arrangements, and resource and development planning and management objectives also come into play. The country's assessment of the trade-off between higher precision of REDD estimation, presumably obtained at higher costs, versus eventual discounts or incentives for high or low uncertainty of estimated REDD reductions is another factor. The FCPF would support each country's evolution toward a capacity to report REDD activities and estimated reductions using IPCC Tier 2 methods, and evolution toward a Tier 3 approach in those countries where conditions and capacity building would enable it. Such evolution could be achieved in a step-wise approach.

A country's R-PIN and Readiness Plan may include the assessment of the quality of data, the design of the MMV system and ultimately also its implementation. A phased approach is recommended, where the details for the implementation of the system can be defined in the

¹¹ The UN IPCC 2006 Guidelines for National Greenhouse Gas Inventories, Volume 4 on Agriculture, Forestry and Other Land Use (AFOLU); and the IPCC's Good Practice Guidance for Land Use, Land-Use Change, and Forestry (LULUCF) are pivotal sources of internationally agreed methods relevant to REDD estimation. Other international initiatives are also generating protocols for application of remote sensing data to REDD requirements, including GOF-C-GOLD group of remotes experts and institutions.

¹² The IPCC guidance use a three-tier approach for emissions factors or carbon stocks for estimation of changes in forest stocks undergoing conversion to other land uses. Tier 1 relies on a set of provided default emissions or carbon stock factors (i.e., carbon density per hectare of a given forest type) organized at the continental (e.g., Latin America) scale, subdivided into six general precipitation and elevation classes (e.g., dry to wet, lowland to mountain). As a result of this generality and of the lack of any site-specific data, estimation using this approach has a high degree of uncertainty. Tier 2 incorporates some country-specific data from national forest inventories, individual technical studies or permanent plots, etc., and adds an evaluation of the fate of carbon during and following land conversion (e.g., instantaneously emitted in biomass burning, etc.). It has a high to medium degree of uncertainty, depending on how much and what kind of in-country data are utilized. Tier 3 relies on detailed country-specific data, often incorporating data from long-term forest inventories, etc., and more advanced methods. It thus generally results with a low degree of uncertainty.

design phase. Hardware and software, acquisition of data material, activities related to ground-truthing, technical assistance, training and capacity building would be eligible expenditures. An early need may be a data acquisition and management plan for remote sensing and other data and analyses of land-use change and carbon density, and economic data for development of the reference case. MMV system design challenges also include methods and data for monitoring forest degradation (more difficult to assess using remote sensing than deforestation), and potentially methods for the attribution of REDD outcomes to program actions. The latter is a special challenge in the context of establishing and running a national monitoring system while undertaking sub-national or local actions designed to reduce emissions on the ground. Linking monitoring of sub-national implementation with the national accounting framework is thought to be necessary to capture leakage and avoid double counting of emission reductions.

3.10 Safeguards

During the Readiness process, the scope of application of World Bank safeguard policies¹³ will depend on the nature of the activities for which a REDD Country Participant seeks support from the Readiness Fund. Given that the precise nature of the Readiness activities will not be known until they are more fully elaborated in the Readiness Plan, the safeguards determination may need to be refined at that stage. At the latest, the governments and the Bank will initiate a dialogue on safeguards requirements upon approval of the R-PIN.

A key feature of the safeguards policies relevant to the Readiness Process is their emphasis on consultation and impact assessment. The Readiness process should ensure that activities and strategies will not cause adverse social and environmental impacts, while also striving to enhance benefits for local communities and the environment. Towards these ends, a series of consultative and assessment measures should be followed:

- **Consultation:** As noted in Section 3.9.1, the Readiness process will involve the consultation and participation of all key stakeholders throughout the process, including forest-dependent indigenous peoples and other forest dwellers. Timely and meaningful consultation with stakeholders will be an essential feature of the design and implementation of the Readiness Package that will subsequently be developed – the Reference Scenario, the REDD Strategy, and the Monitoring System. To ensure meaningful consultation, an important step in developing the Readiness Plan and satisfying the safeguard requirements that arise at this early stage will be the preparation of a detailed consultation plan, developed with inputs from representative stakeholders, to which the REDD Country Participant commits itself for the remainder of the Readiness process including aspects of disclosure and opportunity to respond;
- **Social and Environmental Impacts:** The REDD Country Participant (in close collaboration with relevant stakeholders) will analyze whether the proposed Readiness activities, as well as the policies and measures that will be proposed as part of the Readiness Package, are likely to have environmental and social impacts, especially for forest-dependent indigenous peoples and other forest dwellers. This process will enable the REDD Country Participant to identify likely impacts and risks, as well as opportunities, and consequently make more informed and appropriate choices between strategic options.

To operationalize the principles above, the Government will develop terms of reference (TOR) for conducting an environmental and social assessment during the remainder of the Readiness

¹³ Annex 1 provides an overview of World Bank safeguard policies and other relevant operational policies.

process. The TOR will identify broadly the types of potential impacts that will need to be considered in conducting the assessment, set forth the methodology and timing that will be followed, and describe the principles that will guide the country's approach to addressing these potential impacts. There is a range of assessment and consultative instruments utilized by the World Bank that could be tailored to the needs of particular countries for this purpose, including strategic environmental assessment (SEA) techniques. The TOR will be prepared as part of the Readiness Plan and submitted to the World Bank on a no-objection basis.

The process above will only be followed if the World Bank plans to enter into a Grant Agreement with the REDD Country Participant. Without a World Bank Grant Agreement, the World's Bank safeguard policies will not apply.

3.11 Procurement

As required by the Bank's Operational Policies and Procedures, all goods, works and services related to preparing and implementing the Readiness Plan financed out of the proceeds of grants under the Readiness Fund shall be procured pursuant to the Bank's Procurement Guidelines (please see Annex 2). The REDD Country Participant is also required to maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, in a manner adequate to reflect the operations, resources and expenditures related to the activities financed under the grant agreement. If a development institution other than the World Bank assists the REDD Country Participant to prepare its Readiness Plan and other aspects of the Readiness Package, the World's Bank Procurement Guidelines will not apply.

Chapter 4: Operating Arrangements under the Carbon Finance Mechanism

Some of the REDD Participant Countries, on a voluntary basis, may wish to submit a proposal to the second FCPF Mechanism with a view to selling ERs from one or more ER Programs to the Carbon Fund.

4.1 Emission Reduction Definition

The Carbon Fund will deliver Emission Reductions from reducing deforestation and/or forest degradation, to the Carbon Fund Participants. As a default, the Emission Reductions are all the rights, titles, and interests attached to a ton of emission reduction from a REDD activity referred to here as an Emission Reductions Program (ER Program).

4.2 Emission Reduction Creation

The REDD Participant Countries that will have been selected into the Readiness Mechanism and are able to demonstrate progress towards meeting the goals set out in the Readiness Plan will be eligible to submit an ER Program to the FCPF for consideration for a potential payment by the Carbon Fund.

The process will be as follows:

1. A REDD Participant Country submits an ER Program based on the REDD Strategy prepared as part of its Readiness Package under the Carbon Finance Mechanism;
2. The FMT performs some basic checks (e.g., has the ER Program template been duly completed? Is the country a REDD Participant Country with a Readiness Plan? Is the proposed ER Program in line with the country's REDD Strategy or draft REDD Strategy?);
3. The FMT requests an Ad Hoc Technical Advisory Panel to review the ER Program;
4. The Ad Hoc Technical Advisory Panel renders its advice on the ER Program;
5. The Carbon Fund Participants Committee decides whether to select the ER Program for inclusion into the portfolio. The existing Participants have the right of first refusal over the proposed ER Program until their available capital is committed. If necessary, the Trustee discusses the creation of a special Tranche for this ER Program with the REDD Participant Country and the existing Carbon Fund Participants;
6. If the ER Program is included in the portfolio of a Tranche of the Carbon Fund, the Bank performs its due diligence, including to assess whether the ER Program complies with the applicable environmental and social safeguard policies;
7. An independent reviewer, possibly an Ad Hoc Technical Advisory Panel, performs an ex ante assessment on the ER Program to confirm that it is consistent with the FCPF guidelines on setting reference scenarios and monitoring ERs;
8. The government or an approved entity of REDD Participant Country and the Trustee of the Carbon Fund enter into an Emission Reductions Payment Agreement (ERPA);
9. The REDD Participant Country implements its ER Program and reports on implementation on an annual basis;

10. An independent reviewer, possibly an Ad Hoc Technical Advisory Panel, performs an ex post assessment on the ER Program on annual basis verifying the level of ERs claimed by the REDD Participant Country;
11. The Trustee ensures that the ER Program is in compliance with the applicable environmental and social safeguard policies;
12. Based on the independent reviewer's verification report, and subject to the ERPA provisions and to compliance with the applicable environmental and social safeguard policies, the Trustee of the Carbon Fund makes a payment to the entity designated by the REDD Participant Country in the ERPA; and
13. The Trustee of the Carbon Fund accounts for the ERs delivered to the Carbon Fund and allocates a *pro rata* share of ERs to each Tranche Participant through the internal registry.

4.3 Types of ER Programs

It is expected that the FCPF will be able to review a great diversity of ER Programs depending on country circumstances and preferences. Selection of ER Programs into the portfolio of a Tranche of the Carbon Fund would take diversity into account in order to increase the learning value of the FCPF and also manage risks by diversifying investments.

The following groups and categories of ER Programs can be envisaged – this list is not meant to be exhaustive and combinations among categories are possible:

- **General Economic Policies and Regulations**
 - ❖ **Taxation:** Green tax reform to encourage employment and investment and deter environmental degradation;
 - ❖ **Subsidies:** Removal of subsidies leading to deforestation and forest degradation;
 - ❖ **Rural credit:** Introduction of environmental criteria in rural credit and loans systems;
 - ❖ **Certification:** Licensing and certification of agricultural processes that foster forest protection;
 - ❖ **Law enforcement:** Improvement of the means available to law enforcement services and the judicial system to reduce illegal activities leading to deforestation or degradation; improved staffing of enforcement agencies; prosecution of corruption.
- **Forest Policies and Regulations**
 - ❖ **Taxation:** Rent capture by the government through improved forest royalties and stumpage fees;
 - ❖ **Subsidies:** Subsidization of alternative forest uses and forest conservation;
 - ❖ **Certification:** Introduction or expansion of forest certification, and financial support for certification;
 - ❖ **Concession regimes:** Removal of illegal concessions, conversion of production to conservation concessions;

- ❖ **Land tenure and land rights:** Securing land tenure or access rights for forest-dependent indigenous peoples and other forest dwellers known to act as stewards of the forests and who can provide protection against forest encroachment;
 - ❖ **Forest law, governance and enforcement:** Prevention and prosecution of illegal harvesting and exporting; improvements of incentive structure for forest service officials; introduction of regulations on sale of Emission Reductions from REDD and other types of forest carbon certificates in the forest legislation in order to promote REDD and forest carbon sequestration;
 - ❖ **Zoning:** Introduction or expansion, and better enforcement, of forest management plans for more rational use and conservation of forest resources; improved zoning of rural development so as to reduce the impact on forests, e.g. by directing agriculture and ranching away from high-value forests, or by locating and building roads in less environmentally sensitive areas and using methods less damaging to the environment;
 - ❖ **Protected areas:** Strengthening of existing protected areas and creation of new protected areas;
 - ❖ **Payments for environmental services:** Programs to reward private and public initiatives that reduce emissions from deforestation and degradation directly with cash payments.
- **Forest Management**
 - ❖ **Forest fires:** Improved forest fire prevention and suppression; prevention and suppression of agricultural fires expanding to forest areas; education and awareness campaigns about the use of fires in agriculture, and provision of alternatives to fires, or dissemination of techniques and tools for reducing the impact agricultural fires on forests;
 - ❖ **Reduced impact logging:** Regulation of logging methods in the framework of forest management plans; dissemination of techniques for reduced impact logging;
 - ❖ **Reforestation:** Promotion of new plantations, in particular on degraded lands, to meet timber and energy needs and remove pressure on natural forests, including through company-community partnerships, some of which may be eligible to generate credits under the Clean Development Mechanism of the Kyoto Protocol.
- **Rural Development**
 - ❖ **Community development:** Programs designed to reduce poverty by raising living standards and supporting alternative livelihoods at the border between agriculture and forests (intensification of agriculture to increase yields and reduce forest encroachment; alternatives to slash-and-burn, including promotion of agroforestry to encourage the retention of trees in agricultural landscapes; community health programs; support to general and environmental education);
 - ❖ **Rural electrification:** expansion of the national power grid or promotion of independent power producers using clean sources of energy to substitute for fuelwood collection;
 - ❖ **Community forestry:** Programs devolving forest management from the government to local communities in the context of contracts providing rights and responsibilities for the various parties.

The unifying principle across all of these ER Programs is that financial incentives have to go where they are needed for Emission Reductions to be real and sustainable. In some cases, the national government can be the best actor to enact and implement the necessary policy changes and regulations. But most of these changes will also require the involvement of local communities, individuals and the private sector, in which case these stakeholders or right-holders would expect to partake in the REDD activities and the corresponding carbon revenues (or alternative financing or support) in recognition of their contributions. In other cases, local communities, individuals and the private sector would be the primary actors implementing the ER Programs and thus expect to be the principal beneficiaries of ERPA payments or other acceptable forms of payments or support. Subject to circumstances of the ER Programs, arrangements on the division of responsibilities among various actors would be needed and ER payments should equitably reflect the respective contributions of each actor.

The Carbon Fund is not formulated to finance the full costs of designing and implementing the ER Programs. Some of them may be quite costly and capital intensive. Funding for the ER Programs will need to rely on additional sources, including the government's own budget, community contributions, bilateral and multilateral assistance, and the private sector.

4.4 National vs. Sub-National Implementation

Whether to implement at a national level or through sub-national ER Programs is the sovereign decision of each country and should take into account several factors, including:

- Forest law and regulations, which provides who owns, or has rights to, forest land, timber and non-timber forest products, and other forest services and amenities, including the carbon in the biomass and in the soil;
- Lessons from existing forest policies and programs with respect to the sustainable use of forest resources and biodiversity conservation; whether law enforcement occurs mostly at the national or sub-national level;
- Current drivers of deforestation and degradation, and the current actors of protection against deforestation and degradation;
- Who could start to protect against deforestation and degradation if the legal framework was right and the economic incentives were available;
- Formal and customary set of property and user rights;
- Availability of public and private resources for investments in the sustainable use of forest resources and biodiversity conservation;
- The relative costs and effectiveness of various programs to achieve sustainable use of forest resources and biodiversity conservation; and
- The need to capture and preserve traditional, including indigenous, knowledge about and practice in forest use and conservation.

Sub-national activities still need to be accounted for at the national level given the national accounting framework for REDD that would be supported under the FCPF. The legal or regulatory framework governing such a linkage would provide a way to mitigate the risks of leakage and non-permanence from sub-national implementation schemes and define the respective responsibilities of governmental and sub-national actors. In the case of a nested approach, in which the government expects payments for emission reductions reported at national

level but the ER Program(s) consist(s) of local program(s) or project(s), the difficulty will be in attributing the emission reductions claimed by the government to the ER Program(s) in question.

Besides the choice of national vs. sub-national implementation, there is a choice between the national government signing the ERPA, or some other entity approved by the national government signing the ERPA. Each country would decide how to proceed, but there is a case for the government to sign the ERPA when the government is the primary actor implementing the ER Program(s). Likewise, there would be a case for an entity approved by the national government to sign the ERPA if that entity is expected to invest in, and implement and maintain the ER Program(s).

More specifically, if the national government signs the ERPA, then (i) the government (in its own name) uses ERPA revenues to fund and/or scale up the ER Program; or (ii) the government (on behalf of others) receives and channels all or some of the payments to the approved entities. If an entity other than the national government signs the ERPA, then the entity may be the direct recipient of ERPA payments.

4.5 Risks and Risk Mitigation

The Carbon Finance Mechanism faces several risks, each of which could affect its performance and its overall impact of the FCPF, but can be mitigated:

- **Financial Risk:** There is a risk that the payments made by the Carbon Fund do not lead to the generation by and acquisition of Emission Reductions from ER Programs.

Financial Risk Mitigation: In principle the Carbon Fund would pay mostly on the delivery of emission reductions generated by the ER Programs. This means that there would be little by way of Carbon Fund resources that would be at risk of not translating into any delivery of Emission Reductions. The same principle of payment on delivery becomes a risk to the seller who undertakes ER Programs and may not be compensated for them in case they do not perform, and may actually deter the seller from investing in the first place. This underlines the need for balancing risks and incentives, for example by being flexible regarding the possibility of upfront payments, and also being creative in combining different sources of finance, with some being available at the investment phase, and carbon finance being mostly available after emission reductions are generated.

- **Delivery Risk:** The performance and impact of the Carbon Fund depends on the performance of the ER Programs from which it will sign to acquire emission reductions. If the ER Programs do not perform, the Carbon Fund will not disburse its capital according to plan. A number of risks influence whether the ER Program will perform and how.

Delivery Risk Mitigation: This risk would be reduced by adopting measures that increase the likelihood that contracted emission reduction volumes will indeed be realized, in particular: (i) applying tight selection procedures so that only the most promising ER Programs are included in the portfolio; (ii) applying conservative estimates of the emission reduction potential of any ER Program; and (iii) purchasing only a fraction of the emission reduction potential of any ER Program. By reducing the quantities purchased, measures (ii) and especially (iii) tend to reduce the total value to the seller of emission reductions, which is a risk in itself for the delivery of Emission Reductions. Hence the delivery risk ought to be mitigated without removing the incentive that the ERPA provides to the seller to deliver.

- **Permanence Risk:** Once the Carbon Fund has received delivery of the Emission Reductions and paid for them, there remains a risk that the carbon will be released to the atmosphere due to future disturbances.

Permanence Risk Mitigation: The use of reserves, where a certain portion of the Emission Reductions generated by an ER Program are set aside and maintained as a buffer for possible losses to the carbon asset, can reduce the permanence risk if the reserve is set at the appropriate level. Alternatively the value of the emission reduction that is purchased could reflect the time for which the carbon has remained sequestered in vegetation and soils, in line with a ton-year methodology.

- **Attribution Risk:** The Carbon Fund will have limited resources and may be led to pay for emission reductions with countries experiencing large emissions and large fluctuations in emissions from deforestation and degradation. The question arises as to whether the incentive created by the limited resources of the FCPF's Carbon Fund can explain the Emission Reductions paid for by and delivered to the Fund. In other words, can the impact in terms of Emission Reductions be attributed to the FCPF? This question will especially arise in cases where the Fund pays for emission reductions based on ER Programs well defined in space, e.g., projects designed to reduce emissions. These projects may very well fulfill their objectives of reducing emissions. However, at the level of the whole country, the national accounting system may reveal that the balance for the year is negative, in other words that the country as a whole has not reduced emissions as planned.

The attribution risk also has to do with the fairness of the projected mechanism for paying for Emission Reductions. If a forest community that is part of an ER Program and is supposed to receive ERPA revenues for reducing emissions does manage to reduce emissions, but the country has a negative balance, mechanisms have to be discussed that would not create disincentives for communities to fulfill their part of the contribution and at the same time avoid a trade-off between fairness and 'climate-worthiness'

Attribution Risk Mitigation: A range of mitigation measures can be envisaged, some of which go well beyond the FCPF, e.g., the securing of much larger financial resources to compensate for emission reductions such that the large fluctuations can actually be remunerated, in combination with a system of caps on emissions (based on voluntary or regulated commitments) such that there is no offset but net reductions. In the context of the FCPF, which will have limited capital and may work with emission reduction projects, a full treatment of the attribution problem may require elaborate operations working with project-level monitoring plans that are nested in a national accounting framework. An alternative approach, somewhat less rigorous from an accounting point of view but still legitimate from a climate point of view, is for the Fund to transact with REDD Countries that take a voluntary commitment to reduce emissions. In this case, if emissions are effectively reduced, it may not be necessary to pinpoint, for each ton, the reason why it was not emitted. It may be acceptable to recognize that the REDD Country has reduced emissions and can claim a payment for them.

This approach would not take care of the fairness question in case an ER Program has been successful in reducing emissions but the national balance is negative. For these cases, it may be necessary to put in place project-level monitoring mechanisms and guarantees granted by the government, the FCPF or a third party, that payments will be made to these ER Programs while at the same time recognizing that these tons may have less value from the standpoint of climate change mitigation. These and other approaches may be tested under the FCPF.

4.6 Additional Benefits

Emission Reductions (ERs) from REDD will not be created equal. Some programs may offer, in addition to climate change mitigation benefits, significantly more ‘additional benefits’ compared to ERs generated by other mitigation programs, in particular for local people and the local environment. How the FCPF may help create, monitor and value additional benefits is a matter for Participants in the FCPF to determine. It is recognized that the FCPF is, first and foremost, a climate change mitigation instrument, and that REDD will not solve all the problems affecting forests, including loss of biodiversity, poverty, etc. However, REDD programs should be designed to avoid any harm to local people and the environment but also, where feasible, to improve livelihoods and ameliorate the local environment. For example, REDD activities could enhance biological diversity by protecting and restoring natural habitat (e.g., by concentrating ER Programs on biodiversity hot spots), and preserve or improve livelihoods for local communities (e.g., by securing customary property or user rights to their forest land, and their land’s timber and non-timber forest products) and use ER revenues to finance programs that would help forest communities to protect their immediate environment. In many cases, unless poverty is reduced, the real driver of deforestation and degradation will not be altered, and few if any REDD benefits will be sustained.

REDD may offer a case of synergy between the climate change mitigation and adaptation agendas. A stronger resilience of ecosystems may entail a greater capacity for climate change adaptation, hence REDD may also enhance adaptation to climate change.

Especially in the early days of incentive payments for REDD, there may be limited resources available, so there may be ways of directing these resources to ER Programs that exhibit strong additional benefits for only a marginal increase in costs, if any at all. In this respect, some of the ER Programs listed in Section 4.3 may achieve cost-effective ERs while also creating additional livelihood benefits provided that emission reductions from forest degradation are considered, that local stakeholders, in particular forest-dependent indigenous people and other forest dwellers, are properly consulted, that responsibilities are given to local people, and that they be able to benefit from incentive payments.

The Readiness Mechanism will help establish methods and tools for increasing additional benefits and reducing trade-offs between the climate change impact and the additional goals of poverty reductions and biodiversity conservation. Furthermore, the question of the valuation of these additional benefits will be addressed. Should tons of carbon dioxide equivalent with higher additional benefits receive higher price than those with lower benefits? Or should different buyers pay for different services – practically, can distinct sources of financing for the different services embodied in REDD ERs (e.g., carbon, water, biodiversity and poverty reduction) be bundled together? It must be emphasized that the improvement of livelihoods, consultations with local stakeholders and the inclusion of social groups in ER Programs represent mitigation measures to the delivery risk and may also be financially rewarded in this respect. The FCPF Participants Committee will be asked to deliberate on these questions.

4.7 Valuation

Determining a fair value for Emission Reductions under the FCPF is rendered difficult by the fact that there is no readily available reference for similar carbon assets. To fill this vacuum, the FCPF’s Participants Committee will issue guidelines on how value Emission Reductions under the Carbon Fund. The objective is to arrive at values that:

1. Entice parties to transact Emission Reductions from REDD;
2. Reflect the risks that derive from the current absence of a regulatory framework on REDD;
3. Recognize the risks and benefits of REDD relative to classes of carbon assets currently being traded;
4. Allow risk and benefit sharing by sellers/recipients and buyers/donors; and
5. Leave room for adjustments later on as the UNFCCC adopts rules on REDD and demand and supply for Emission Reductions from REDD activities evolve.

It is expected that the regulatory risk will be reduced during the coming years, which might lead to significant changes in value. As both sellers/recipients and buyers/donors are sharing the risk for the success of the programs, both parties should also share future gains and losses from value increases (or decreases) in equal shares.

A background note on possible valuation structures was prepared and discussed with a large number of countries and organizations on April 1, 2008. On that occasion a general preference was expressed for a combination of fixed and floating values. The fixed component is designed to guarantee a minimum revenue flow that is correlated with REDD production costs (both opportunity and implementation costs), while the floating component is meant to allow seller and buyer to share the potential of value upsides in the future. An auctioning mechanism also met with favorable responses as it may allow value discovery. The note will continue to be updated in the future to inform the discussion among FCPF Participants and facilitate the adoption of valuation guidelines.

4.8 Ad Hoc Technical Advisory Panels

Ad Hoc Technical Advisory Panel(s) (TAP) may be established by the Carbon Fund or the FMT to provide technical review and advice on various aspects of the ER Programs, or the functions of the Fund. The procedures for establishing and managing TAPs shall follow those described in Section 3.8 for the Readiness Mechanism, as modified by the establishing body to meet the needs of the Carbon Fund.

4.9 Safeguards

Investment activities supported by the Facility through an ERPA will be expected to comply with the Bank's applicable environmental and social safeguard policies. Annex 1 provides a summary overview of these policies, and Bank task team leaders will be expected to prepare for ERPAs accordingly, either as a financial intermediary (FI) type operation with an operational manual or as a series of distinct investment operations. As is the case for regular Bank projects, activities will be expected to be classified as category A, B, C or FI, depending on the type, location, sensitivity and scale of the activities, and the nature and magnitude of their potential environmental impacts. All relevant documents, such as Environmental Assessment Reports, Environmental Management Plans, Indigenous Peoples Plans, Resettlement Plans or other management plans, or material produced pursuant to the safeguard policies, will be disclosed in line with relevant policies and procedures, both at the Bank's Infoshop in Washington and the Public Information Center in each country.

If the REDD Country proceeds with one or several ER Programs under the Carbon Fund, the Country will be expected to prepare, consult and disclose full assessments, according to the World Bank Policy on Disclosure of Information.¹⁴

4.10 Procurement

Purchases of emission reductions by the Carbon Fund will not be subject to the Operational Policy on Procurement since payments to be made under ERPAs will be for environmental services performed by the REDD Country Participant, namely Emission Reductions from deforestation and degradation, as opposed the procurement by the country of goods, works and services in the future.

4.11 Structure of the Carbon Fund

Consistent with its objectives of learning and demonstration, the FCPF is open to a variety of approaches to design ER Programs and value Emission Reductions as the REDD concept evolves. For this purpose, and to allow for phased funding, the Trustee may consider and propose the opening of Tranches with specific characteristics.

The possible creation of future Tranches under the Carbon Fund will safeguard the rights of existing Carbon Fund Participants. If the Trustee contemplates the creation of any additional Tranche, it will inform the FCPF Participants in advance. Moreover, the Trustee will provide full disclosure to the potential Participants interested in contributing to that Tranche.

¹⁴ The World Bank Policy on Disclosure of Information is accessible at <http://www1.worldbank.org/operations/disclosure/documents/disclosurepolicy.pdf>

Chapter 5: Knowledge Management, Reporting and Evaluation

5.1 Background: REDD Knowledge Status and Needs

Knowledge management (KM) – the systematic organization and dissemination of knowledge for a set of stated objectives – is a key component of the FCPF. High expectations have been raised for REDD over the past few years, which need to be tempered with realism. Therefore, both the FCPF's initial implementation in the first REDD Country Participants and its long-term success strongly depend on the creative synthesis and dissemination of existing and new knowledge on best practices to reduce the rate of deforestation and forest degradation.

Countries and institutions have advanced their practical experience on how to reduce deforestation and forest degradation. However, the lessons learned, decision support tools, and policy insights are meager, and generally confined to specific drivers and locations of deforestation (e.g., restructuring logging concessions in one region, or devolution of management responsibilities to specific communities). Seldom have these lessons been up-scaled into comprehensive national strategies to achieve REDD results on the basis of positive incentive programs. The FCPF aims to help fill this knowledge gap by supporting the development or adaptation of methods and guidance, piloting implementation approaches on the ground, and evaluation and sharing of lessons learned. Its efforts will provide a set of insights into how REDD could work on the ground in a wide range of settings, to be drawn on in the design of any eventual REDD policies or ER Programs.

The overall knowledge management objective for FCPF is: to achieve systematic, consistent development and transfer of information necessary for participant countries to implement REDD activities under then FCPF, in a wide range of biophysical and socioeconomic country settings, to meet stakeholder, market, and Bank oversight requirements.

The FCPF's initial implementation in the first REDD Country Participants and its long-term success depend on its meeting four key KM objectives:

Objective 1: Synthesizing and applying existing knowledge more effectively: on how best to avoid further deforestation and forest degradation, both knowledge within the Bank and in the expert communities globally;

Objective 2: Supporting the generation of new knowledge countries require for REDD implementation in their specific contexts, including standardization of knowledge into practical protocols to address REDD and the Readiness Plan and REDD Strategy actions, utilizing the IPCC Good Practice Guidance and other internationally recognized methods;

Objective 3: Disseminating existing and new knowledge and experience to clients: to the wide range of country and international participating stakeholders, land users, and policy processes (including the UNFCCC); and

Objective 4: Evaluating the performance of the FCPF program and its implementation, at the country and the program levels: in terms of meeting Bank safeguards and operations policies, and delivering cost-effective REDD and additional benefits to countries and their peoples.

By supporting international efforts to package knowledge in practical, transparent, and widely available protocols, methods, and other guidance, the FCPF can work to target delivery of the most useful information to the most appropriate local and national users. Knowledge generated via experimentation in the field can be exported via the program and its stakeholders to other countries and the expert community; while the latter can export knowledge to field settings and practitioners.

The table below summarizes how the first three KM objectives could be met in the FCPF, and potential methods to realize them. The fourth objective, program evaluation, is discussed separately below.

FCPF Knowledge Management Objectives, and Potential Methods to Meet Them

KM Objectives	Potential Methods to Meet Them
1. Synthesizing Existing Knowledge	1a: Identify knowledge leaders within the World Bank and harvest knowledge of past Bank successes and issues.
	1b: Identify external experts and engage them to synthesize lessons learned from prior programs, policies and tools to slow deforestation into reports and methods, and disseminate them.
	1c: Review IPCC LULUCF GHG inventory reporting methods and GPG, for their adequacy for addressing REDD requirements. Train REDD countries in these methods.
	1d: Convene the remote sensing community to supplement existing guidance on how to use remote sensing data for REDD—including Reference Scenario development, Monitoring System design, monitoring of additional benefits, etc.
	1e: Support the collection and use of forest dwellers’ traditional knowledge of, and governance approaches to, natural resources.
2. Supporting the generation of new knowledge	2a: Develop methods and guidance to supplement IPCC GPG and other methods as needed to address REDD, as identified under Objective 1.
	2b: Establish joint UN-FCPF programs of cooperation for capacity building on REDD, to enhance donor coordination and speed of delivery.
	2c: Build partnerships across major institutions with knowledge of REDD strategies and tools, to increase the speed of development and delivery of new decision support tools.
	2d: Review existing experience in program delivery, institutional arrangements and payment approaches for REDD, and develop innovative mechanisms and methods to improve their transparency, verifiability, and equity.
	2e: Develop decision support tools and other methods to quantify the potential for optimizing inclusion of additional benefits with REDD, focusing on rural livelihood and biodiversity conservation.
	2f: Generalize from the few specific promising case studies of policies and programs to address specific drivers of deforestation, to whole classes of country and regional forest/policy/economic conditions—to achieve economies of scale.
3. Disseminating knowledge and experience to clients	3a: Integrate learning and knowledge sharing into all phases of the FCPF program.
	3b: Develop an FCPF outreach plan to ensure timely dissemination of key lessons learned and methods to targeted stakeholders, including international fora.
	3c: Develop a world-class FCPF website for making knowledge available as soon as possible, for training, research and field use by stakeholders.
	3d: Use webinars, webcasts, email listserves and other techniques to develop an online community and ensure timely dissemination of knowledge.

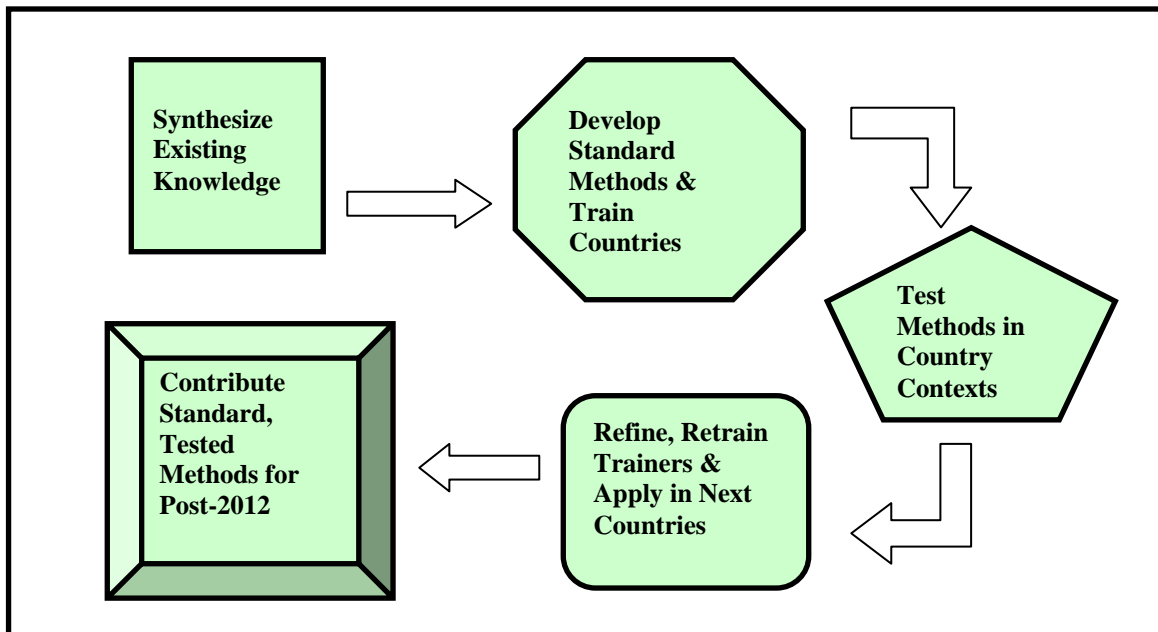
The FCPF expects to support the assessment of the relevance of existing project-based approaches in the forest and other sectors to Reference Scenario setting, deforestation driver analysis, additional benefits, program delivery in the field, and monitoring methodologies. The program will evaluate the potential for adapting the few existing decision support tools like software, decision trees and emissions coefficient look-up tables for the REDD context. Methods and tools that are adequate to the REDD problem and myriad contexts can be developed, tested, and reworked as a method of knowledge generation and dissemination. Climate mitigation programs like the Clean Development Mechanism of the Kyoto Protocol, the Bank's Prototype Carbon Fund and BioCarbon Fund, and voluntary programs, and the IPCC have tested methods and concepts that have promise for the REDD context, but would need to be scaled up for the national focus of REDD.

5.2 FCPF's Knowledge Management Process

The figure below summarizes the cycle of REDD knowledge management, from current knowledge through new knowledge generation and use in field pilots, to the provision of insights gained and methods developed to global policy processes, including the UNFCCC.

When a participant country in FCPF begins developing its R-PIN, it starts synthesizing past experiences with slowing deforestation, and identifying potential new approaches and tools for its Readiness Plan. An early KM step is for each country to achieve significant stakeholder participation, because (i) experience varies by stakeholder, and knowledge is not evenly shared; (ii) experience needs to be synthesized into overarching insights into what has worked and has failed, and why; and (iii) REDD Strategies and ER Programs need to have buy-in from all affected and implementing parties.

Summary Cycle of REDD Knowledge Management



Forest-dependent indigenous peoples and other forest-dwelling stakeholders in REDD are critical participants in efforts to address deforestation and degradation, since they possess unique knowledge about ecosystem-specific sustainable forest management and conservation. The

preservation and use of existing traditional knowledge among indigenous peoples about forest use practices, non-timber forest products, and relevant social organization pertaining to managing forest resources needs support for REDD to be effective in some settings, FCPF is currently evaluating the potential of providing at least limited support for such preservation and use, and advocating support by other donors. Recognition of traditional practices may be identified by participating countries for inclusion in their Readiness Plans and REDD Strategies. Some REDD strategies also may be crafted to directly build on sustainable social and land management practices traditionally in place. Traditional systems may serve as pathways to more sustainable practices for recent immigrants to the forests from more market-based, and more forest-consumptive, economic systems.

The FCPF anticipates the need to design standardized training for technical service providers, providing technical assistance, tailored to country conditions for participant country staff and relevant stakeholders. Key technical assistance needs include enhancing country comprehension of the IPCC GPG for estimating land-use change and associated greenhouse gas emissions, and approaches for developing REDD reference scenarios. Transfer of software tools and expertise to requesting countries is expected for development of the Readiness Plan. The table below summarizes the FCPF steps and potential technical assistance that may be provided by the FCPF and other organizations.

Knowledge sharing across REDD countries may be facilitated in the annual Participants Assembly meeting, via country presentations that showcase their experiences and work under the FCPF to date.

FCPF Steps for REDD Participant Countries, and Potential Technical Assistance Provided by FCPF or Other Organizations, and Dissemination of Information

FCPF Steps	Major Knowledge Requirements	Potential FCPF or Other Technical Support	Support Methods and Dissemination of Results
R-PIN	<p>1) Basic information on REDD potential, drivers of deforestation, data availability</p> <p>2) Country vision of REDD strategies and monitoring system</p>	<ul style="list-style-type: none"> • Clarifications for PIN preparation (by FMT) • Technical assistance for R-PINs (not FCPF role; via other organizations) • Stakeholder consultation (FCPF service providers) 	<ul style="list-style-type: none"> • Training workshops (FMT and FCPF service providers) • FCPF website • Individual country R-PIN review and consultation (FMT) • Non-FCPF organizations and experts
R-Plan	<p>1) Elaborated plan</p> <p>2) Data analysis</p> <p>3) Reference Scenario</p> <p>4) Tech assistance needs and gaps of information,</p> <p>5) Delivery mechanisms, financing</p> <p>6) Institutional and governance strengthening</p> <p>7) Monitoring System</p>	<ul style="list-style-type: none"> • Grant(s) and technical assistance for R-Plan preparation and stakeholder consultation • Development of generic methods for estimating deforestation, degradation, reference scenarios, monitoring (FCPF) • Tailoring generic methods to country needs and conditions (FCPF service providers) • Support for in-country capacity building for R-Plan, inc. remote sensing data and analysis, delivery mechanisms, monitoring plan, addressing cross-sectoral influences on REDD outcomes (FCPF service providers) • Limited institutional and governance strengthening, if identified in R-Plan (FCPF service providers) • Technical Advisory Panel review of R-Plan (FCPF) 	<ul style="list-style-type: none"> • Training workshops (FCPF service providers) • FCPF web site sharing of relevant knowledge and country experiences (FMT) • Individual country R-Plan review and consultation (FMT and FCPF service providers) • International organizations and experts • Monitoring compliance with World Bank safeguard policies (World Bank; FMT)
Evaluation of FCPF Performance	<p>1) FCPF internal review of effectiveness of FCPF program delivery</p> <p>2) Independent Evaluation Group or other third party evaluation of FCPF program</p> <p>3) Communication of findings and insights, and methods to countries, investors, UNFCCC</p>		<ul style="list-style-type: none"> • Country experience summary regional workshops (FMT and FCPF service providers) • World Bank Independent Evaluation Group evaluates FCPF progress (reports to Bank's Executive Board) • Individual country performance review by FMT • Third party organizations and experts review country and FCPF performance and write reports, technical articles • Reporting to UNFCCC of lessons learned, by Participant countries, experts, and FCPF

5.3 Reporting

Participation in the FCPF will necessitate reporting of actions underway and completed for each phase of the Readiness process. Reporting responsibilities may range from simple communication of the status of work within each country, and the FCPF program, for the Readiness Mechanism and the Carbon Fund, to detailed draft and final reports on lessons learned and issues to be resolved, as determined by the Participants Committee. The FCPF program and the World Bank as trustee will report on an ongoing basis to major technical (e.g., the IPCC) and policy (e.g., UNFCCC) processes, on work to date, lessons learned, and challenges ahead for REDD implementation. Formats and guidance for reporting will be developed by the FCPF as needed.

The following FCPF documents will be made publicly available:

- Readiness Plan Idea for those countries selected into the FCPF;
- Readiness Plans;
- Grant Agreements;
- Reports on implementation of Grant Agreements;
- Reports and conclusions of the Participants Committee meetings;
- Information on ER Programs selected by the Carbon Fund Participants Committee;
- Where appropriate, findings and advice from the Ad Hoc Technical Advisory Panels;
- Information on good practices and lessons of experience learned through operation of the Facility;
- Annual Reports presented to the Participants.

5.4 FCPF Program Performance Evaluation

The measurement of the effectiveness of development assistance generally includes program performance evaluation—methods to assess if a program is meeting its intended objectives effectively and efficiently.

FCPF program performance evaluation is expected to occur both at the country level for each country in the FCPF program, and for the FCPF overall. Evaluation at both levels strives to answer a set of key questions, in order to accomplish programmatically useful evaluation in a timeframe that allows for course correction during the lifetime of the program:

- What has worked, or not worked, so far in this program, and why?
- What can be done better programmatically in terms of the efficiency and equity of the delivery approach, to meet program objectives?
- How can program benefits be verified? and
- How can successes be replicated, or failures avoided, in a wide range of country conditions, to scale up from demonstration efforts?

In some instances, the FCPF and a country may find it important to provide an analytical framework for rating a country's ability to monitor and evaluate its progress in achieving designated development (i.e., REDD) goals. This diagnostic tool could help determine a country's understanding, capacity, and use of existing monitoring, evaluation and, ultimately, knowledge management systems to establish a results-based, integrated MMV and Evaluation system. Use of

this tool could help: (i) determine whether political or institutional disincentives exist before beginning to build a system; and (ii) review a country's current capacity to monitor, evaluate and disseminate along the following dimensions: technical skills, managerial skills, existence and quality of data systems; available technology; available fiscal resources; and institutional experience.

Participants in the FCPF consultations have called for independent evaluation of the overall Facility and its performance. In consultation with the PC, the FMT will request such evaluation by the Bank's Independent Evaluation Group (IEG) and/or from an Ad Hoc Technical Advisory Panel reporting to the Participants Committee.

IEG is an independent unit which reports directly to the World Bank Board of Executive Directors. It assesses what works and does not; how a Bank borrower is planning to manage a project or grant; and what the lasting contribution may be of the Bank's support in terms of a country's overall development objectives. Evaluation is undertaken by IEG to provide an objective basis for assessing the impact of and lessons from the Bank's programs and analytic work, and to provide accountability in meeting the programs' stated objectives.

In the case of a new program like the FCPF, IEG has indicated an interest in undertaking an interim evaluation about two years after the Facility becomes operational. The FMT will assess how best to begin preparing for that evaluation, and promote interim assessment and feedback. This may occur by establishing a process evaluation instrument that tracks Facility performance on an ongoing basis.

Evaluation at both the country and program levels shall be guided by the following principles articulated in the development assistance evaluation literature:

1. Evaluations need to be useful, feasible, ethical, and accurate;
2. Quality evaluations ask questions relevant to the needs of the program and its upcoming activities, use appropriate methods that are applied rigorously, and deliver conclusions of the evaluation that are policy and program relevant;
3. Evaluation needs to be planned into the FCPF program from the beginning, and be pertinent to the timing of programmatic and budgetary decisions to be useful. Thus, we expect a formal evaluation plan to be produced by FCPF within six months of its becoming operational;
4. Evaluation of both program processes at the national and the program scales, and of program outcomes, should occur and be incorporated into the evaluation plan;
5. Internal, improvement-oriented evaluation (to allow rapid course corrections) shall be undertaken by the FMT itself or by a TAP convened for this purpose in the near term, perhaps six-nine months after the Facility becomes operational;
6. Internal evaluation should occur, at least in a short-turn-around and short-format manner, after each phase of the FCPF program and key country Readiness activities. For example, quick review of the R-PIN review process should occur within two months of completing the first major batch of reviews (say, the first ten); or of the Readiness Plan design phase by a country; while the program or a country moves on to the next phase. A crisp review of recent performance is perhaps more valuable than a more detailed review a year later;
7. External, independent overall-judgment evaluation (summative evaluation of performance should be undertaken not more than two years after this operational date);

8. The evaluation program of the FCPF will itself offer a useful set of lessons and insights for testing how REDD might work globally in the next five or so years. The evaluation program design should keep this principle in mind;
9. Lessons from past World Bank and other forest sector program and relevant development assistance analyses should be used to guide evaluation of FCPF program activities. This assessment should be undertaken within six months of the FCPF becoming operational, and could take the form of an internal FCPF, World Bank, or other review of why previous programs succeeded or failed, and lessons learned that may apply to design and implementation of the FCPF program; and
10. Results of country and program evaluations will be made widely available, to promote learning from evaluation, course correction for ongoing programmatic activities, and knowledge sharing with other programs.

Annex 1: Environmental and Social Safeguard Policies

This annex provides a summary of some of the main features of the Bank's environmental and social safeguard policies. For a more complete treatment of the subject see www.worldbank.org, under "Projects and Operations" and "Policies and Procedures".

Operation Policy (OP)/Bank Policy (BP) 4.01 Environmental Assessment

Bank policy establishes procedures for the environmental assessment (EA) of Bank lending operations. EA is an important instrument to help countries achieve sustainable development, through preventing and/or mitigating any harmful consequences of project activities. All projects must be screened to determine the appropriate level of EA. The most rigorous EA process is used for a project which is likely to have significant adverse environmental impacts, such as impacts that are sensitive, diverse or unprecedented or that affect an area broader than the sites or facilities subject to physical works. If the environmental impacts are less adverse (e.g. site specific, reversible and subject to satisfactory mitigation measures), a less exhaustive form of EA is required. If the project has no, or minimal, adverse environmental impacts, no EA is required.

OP/BP 4.04 Natural Habitats

The Bank supports the protection, maintenance, and rehabilitation of natural habitats. The Bank does not finance projects that involve the significant conversion or degradation of critical natural habitats. Where no feasible alternatives exist for projects that convert natural habitats, mitigation and restoration are included in the project to minimize habitat loss. In addition, the Bank may require that the project include the establishment and maintenance of an ecologically similar compensatory area.

OP 4.09 Pest Management

In assisting borrowers to manage pests that affect either agriculture or public health, the Bank supports a strategy that promotes the use of biological or environmental control methods and reduces reliance on synthetic chemical pesticides. In Bank-financed projects, the borrower addresses pest management issues in the context of the project's environmental assessment. Specific criteria apply to procurement of pesticides.

OP/BP 4.10 Indigenous Peoples

The Bank recognizes that the identities and cultures of Indigenous Peoples are inextricably linked to the lands on which they live and the natural resources on which they depend. For all projects that are proposed for Bank financing and affect Indigenous Peoples, the Bank requires a process of free, prior, and informed consultation, and provides project financing only where free, prior, and informed consultation results in broad community support to the project by the affected Indigenous Peoples. This policy also seeks to ensure that potentially adverse effects of proposed projects on indigenous people are avoided, minimized, mitigated and/or compensated for. Bank-financed projects are also designed to ensure that the Indigenous Peoples receive social and economic benefits that are culturally appropriate and gender and intergenerationally inclusive.

OP/BP 4.11 Physical Cultural Resources

The Bank assists countries to avoid or mitigate adverse impacts on physical cultural resources from projects that it finances. The impacts on physical cultural resources resulting from project activities, including mitigating measures, may not contravene either the borrower's national

legislation, or its obligations under relevant international environmental treaties and agreements. The borrower addresses impacts on physical cultural resources in projects proposed for Bank financing, as an integral part of the environmental assessment (EA) process.

OP/BP 4.12 Involuntary Resettlement

This document outlines the Bank policy and procedures covering Bank staff and borrower's responsibilities in operations involving involuntary resettlement. Involuntary resettlement should be avoided or minimized where feasible. Any operation that involves involuntary land acquisition is reviewed for potential resettlement requirements early in the project cycle to protect the livelihood of people who lose their land, their houses, or both. The objective of the Bank's resettlement policy is to assist displaced persons in their efforts to restore or improve former living standards and earning capacity. To achieve this objective, the borrower is required to prepare and carry out resettlement plans or development programs.

OP/BP4.36 Forests

Bank operations in the forest sector aim to harness the potential of forests to reduce poverty in a sustainable manner, integrate forests effectively into sustainable economic development, and protect the vital local and global environmental services and values of forests. The Bank does not finance projects that, in its opinion, would involve significant conversion or degradation of critical forest areas or related critical natural habitats.

OP 7.50 Projects on International Waterways

The Bank recognizes that projects involving the use of international waterways for development purposes may affect relations between the Bank and its clients and also between states, whether members of the Bank or not. Any proposed project's potential to harm the interests of other riparian states through deprivation of water, pollution, or otherwise is determined and affected riparian states are notified, in principle, by the government of the country in which the project will be implemented. The Bank attaches great importance to riparian states making appropriate agreements or arrangements for the use and protection of the waterway; where differences exist, prior to financing, the Bank urges states to negotiate to reach appropriate agreements or arrangements.

OP/BP/GP 7.60 Projects in Disputed Areas

In order not to prejudice the position of any state where a proposed project is located in an area the ownership of which is disputed between governments, such a project may normally only proceed if all the governments concerned agree that, pending settlement of the dispute, the project may go forward without prejudice to the final settlement.

OP 4.37 Safety of Dams

Because there are serious consequences if a dam does not function properly or fails, the Bank is concerned about the safety of new dams it finances and existing dams on which a Bank-financed project is directly dependent. When the Bank finances a project that includes the construction of a new dam, it requires that the dam be designed and its construction supervised by experienced and competent professionals. It also requires that the borrower adopt and implement certain dam safety measures for the design, bid tendering, construction, operation, and maintenance of the dam and associated works.

Annex 2: Other Applicable Operational Policies

This annex provides a summary of some of the main features of the Bank's Operational policies and procedures applicable to the FCPF operation. For a more complete treatment of the subject see www.worldbank.org, under "Projects and Operations" and "Policies and Procedures."

OP/BP 11.01 Procurement

The Bank has the fiduciary responsibility to ensure that financial resources are used for the intended purposes, with due attention to economy and efficiency and without regard to political and other non-economic influences or considerations. To ensure this the Bank has established procurement rules to be followed by borrower/grant recipient in the procurement of goods, works and services required for Bank financed projects. Additionally, the Bank has established procedures for the review of procurement decisions. The said rules and procedures are detailed in the *Procurement Guidelines*; and those that apply to the selection and employment of consultant services are detailed in the *Consultant Guidelines*, both of which are binding on borrower/grant recipient and recipient of the grants. The following basic principles guide the Bank's procurement requirements: fair competitive bidding; economy and efficiency in the purchase of goods, works and services; domestic preference to enhance development in the borrower/grant recipient's country; and, transparency throughout the procurement process.

The borrower/grant recipient is responsible for all aspects of the project implementation, including procurement. However, the Bank assesses the capacity of the implementing agencies to carry out the required procurement and establishes the level of associated risk. The level of risk determines the scope and intensity of the supervision arrangement for the project by the Bank and the actions to be undertaken by the borrower/grant recipient necessary to maintain such risks at an acceptable low level. A borrower/grant recipient who fails to carry out procurement in accordance with the procedures agreed in the Loan Agreement attracts a cancellation of the amount of the loan allocated to goods, works and services that have been misprocured.

The borrower/grant recipient prepares a procurement plan that covers the activities necessary to ensure that the project procurement will be carried out efficiently and professionally.

The Bank assists the borrower/grant recipient in planning for procurement, including preparation of the procurement plan, as well as supervises and monitors procurement decisions throughout project implementation.

OP/BP 11.01 Fraud and Corruption (Paragraph 16)

The Bank requires that its own staff, borrower/grant recipient and bidders observe the highest ethical standards during the procurement and execution of Bank-financed contracts. Firm's found to have participated in fraudulent or corrupt practices or activities are declared ineligible to be awarded future Bank-financed contracts, either indefinitely or for a stated period of time. If a representative of the borrower/grant recipient is found to be engaging in such corrupt or fraudulent practices, the Bank cancels the amount of the loan allocated to the contract in question unless the Borrower/grant recipient takes appropriate action satisfactory to the Bank to remedy the situation.

OP10.02 Financial Management

1. Financial management arrangements are the budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements of the entity or entities responsible for

implementing Bank-supported operations. For each operation supported by a Bank loan or grant, the Bank requires the borrower/grant recipient to maintain financial management arrangements that are acceptable to the Bank and that, as part of the overall arrangements that the borrower/grant recipient has in place for implementing the operation, provide assurance that the proceeds of the loan are used for the purposes for which the loan was granted. Where feasible, the Bank expects these financial management arrangements to be integral to existing borrower/grant recipient institutions and to enhance institutional sustainability.

2. *Assessments of Financial Management Arrangements.* The Bank assesses the adequacy of the borrower/grant recipient's financial management arrangements during the preparation and implementation of each operation and requires the borrower/grant recipient to undertake appropriate measures, including institutional capacity strengthening, to mitigate risks posed by weaknesses that are identified.

3. *Interim Financial Reporting.* The Bank normally requires the borrower/grant recipient to submit interim financial reports of which the format, content, periodicity, and due date are acceptable to the Bank.

4. *Audited Financial Statements.* The Bank requires that the borrower/grant recipient provide audited financial statements that reflect the activities of the operation supported by the Bank loan. It requires that the financial statements be prepared in accordance with accounting standards acceptable to the Bank and that the audit be conducted in accordance with auditing standards acceptable to the Bank. It further requires that the scope of the audit and the independent auditors who conduct it be acceptable to the Bank. The Bank normally requires that the financial statements be audited annually, and provided to it no later than 6 months after the end of the reporting period. The Bank may allow an exemption from these requirements if the borrower/grant recipient has more cost-effective mechanisms that provide the Bank with equivalent assurance that loan proceeds have been used appropriately. In all such cases, the Bank retains the right to request an audit.

5. *Failure to Maintain Acceptable Financial Management Arrangements.* If the borrower/grant recipient fails to maintain acceptable financial management arrangements, or to submit the required financial reports by their due dates, the Bank takes action to rectify the situation.

Part II FCPF Charter

**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; and
- (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

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 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 Participant’s Contribution to the Carbon Fund;
12. **“Carbon Fund Participants Committee”** means the committee described in Section 12.1;
13. **“Charter”** means the Charter Establishing the Forest Carbon Partnership Facility, as amended from time to time;
14. **“Closing Date of the Carbon Fund”** means the last date on which the Trustee enters into Carbon Fund Participation Agreements for the Carbon Fund;
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 the Carbon Fund from a Carbon Fund Participant, as the case may be;
18. **“Criteria for Budget Allocation for Preparing and Implementing the Readiness Plan”** means a set of criteria for allocating grants to each REDD Country Participant for developing and implementing a Readiness Plan, as proposed by the Facility Management Team and approved by the Steering Committee, which may be modified by the Participants Committee;
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; and;
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 the Carbon Fund has been approved by the World Bank;

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 Plan 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 Funds and all other assets, receipts and interests of the Funds;

38. **“Grant Agreement for the Development and Implementation of the Readiness Plan”** or **“Grant Agreement”** means the agreement between a REDD Country Participant and the Trustee of the Readiness Fund setting out terms and conditions for disbursement of the grant for support of preparing and implementing the Readiness Plan;
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. **“Modified Cash Basis of Accounting”** means a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America or International Financial Reporting Standards, wherein Contributions will be recorded when received, expenditures will be recorded as disbursements when paid rather than when committed;
47. **“Monitoring System”** means a nationwide monitoring, measuring and verification system, capable of monitoring Emission Reductions against an established Reference Scenario;
48. **“Opening Date of the Carbon Fund”** means the date on which the Trustee commences entering into Carbon Fund Participation Agreements for the Carbon Fund;
49. **“Operational Date of the Carbon Fund”** means the date on which the Trustee declares commencement of operation of the Carbon Fund;

50. “**Opening Date of the Readiness Fund**” means the date described in Section 4.1 (a);
51. “**Operational Date of the Readiness Fund**” means the date described in Section 4.1 (b);
52. “**Operational Date of the Facility**” means the date that the Readiness Fund commences operation;
53. “**Organizational Meeting**” means a meeting of the Participants held pursuant to Section 10.3;
54. “**Participants**” or “**Participants in the Facility**” means collectively REDD Country Participants, Donor Participants and Carbon Fund Participants;
55. “**Participation Agreements**” means collectively REDD Country Participation Agreements, Donor Participation Agreements and Carbon Fund Participation Agreements;
56. “**Participants Assembly**” means a body for all Participants described in Article 10;
57. “**Participants Committee**” means the committee described in Article 11;
58. “**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;
59. “**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;
60. “**Readiness Plan**” means a plan submitted to the Facility Management Team by a REDD Country Participant, which builds on the Readiness Plan Idea Note and details the activities to be undertaken by that country to increase its capacity to address REDD through implementation of its Readiness Package
61. “**Readiness Plan Idea Note**” or “**R-PIN**” means the initial proposal submitted to the Facility Management Team by an Eligible REDD Country outlining that Country’s proposal for a Readiness Plan;
62. “**REDD**” means reducing Emissions from deforestation and/or forest degradation;

63. “**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;
64. “**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;
65. “**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;
66. “**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;
67. “**Relevant International Organization**” means an intergovernmental association of countries, established by and operated according to multilateral treaty, which has experience and expertise in REDD;
68. “**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;
69. “**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;
70. “**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;
71. “**Steering Committee**” means the committee described in Section 15.1;
72. “**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;
73. “**Tranche**” means a trust fund established under the Facility by the Trustee of the Carbon Fund as described in Section 4.2 (b);
74. “**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;

75. “**Trustees**” means collectively, the Trustee of the Readiness Fund and the Trustee of the Carbon Fund;
76. “**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 Carbon Fund;
77. “**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;
78. “**UNCITRAL**” means the United Nations Commission on International Trade Law;
79. “**UNFCCC**” means the United Nations Framework Convention on Climate Change adopted in New York on May 9, 1992;
80. “**UNFCCC Guidance on REDD**” means the body of rules, modalities, procedures and guidelines on REDD that is adopted under the auspices of the UNFCCC;
81. “**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 Purchase Agreement or any other agreement that were achieved during a specific period in accordance with the terms of the relevant agreement;
82. “**World Bank**” or “**Bank**” means the International Bank for Reconstruction and Development;
83. “**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;
84. “**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;
85. “**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;
86. “**World Bank’ Standard Conditions for Grants Made by the World Bank Out of Various Funds**” means standard terms and conditions, dated July 20, 2006, applying to the Bank’s grant agreements under the Bank’s trust funds, as may be amended from time to time.

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 Instrument, 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

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 ensuing equitable 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 Plans 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, including implementation of activities under Grant Agreements and Emission Reductions Programs, 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 Plan 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

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:

- (a) 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;
- (b) 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
- (c) 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

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 Plan 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 Plan 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) Following effectiveness of a REDD Country Participation Agreement, the Trustee of the Readiness Fund may, if the Trustee so decides, enter into one or more Grant Agreements related to the development and implementation of the Readiness Plan with the REDD Country Participant.

Section 6.3 Development and Implementation of Readiness Plan

- (a) A REDD Country Participant shall, on the basis of the Readiness Plan Idea Note, develop a Readiness Plan and submit it to the Facility Management Team for review and approval by the Participants Committee.

- (b) A REDD Country Participant shall report to the Participants Committee on the progress made with respect to implementation of the Readiness Plan 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 Plan. 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 Plan, 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 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**"),
 - (i) Fails to develop a Readiness Plan in accordance with Section 6.3 within twenty-four (24) months after the date of execution of the REDD Country Participation Agreement; or
 - (ii) Fails to fulfill the obligations set out in the Grant Agreement for the implementation of the Readiness Plan,

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 at any time during the operation of the Readiness Fund, provided that the Additional Contributions are made in increments of US\$1,000,000.

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 Demand of 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 Unit, 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 to make a Contribution to the Carbon Fund.

- (b) The Minimum Contribution of the Carbon Fund is US\$5 million. If the Trustee of the Carbon Fund opens a Tranche in accordance with Section 4.2 (b), the Trustee of the Carbon Fund will determine the Minimum Contribution for that Tranche.
- (c) A Carbon Fund Participant may elect to increase its Contribution to the Carbon Fund by making Additional Contributions to the Carbon Fund up to the Closing Date of the Carbon Fund, provided that the Additional Contributions must be made in increments of US\$1,000,000.

Section 8.2 Payment of Contribution

Each Carbon Fund Participant shall pay its Contribution to 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 Plan or the Readiness Package of the REDD Country Participant whose Underlying Emission Reductions Program is under consideration by the Carbon Fund Participants, this 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 Demand of Payment 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 notify the Participants Committee immediately and shall 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**”):

- (i) 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
 - (ii) 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 of the Default within five (5) Business Days upon occurrence of the Default. Between thirty (30) to forty-five (45) Business Days following such notice, any of the other Carbon Fund Participants 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 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 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 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 these Carbon Fund Participants pro rata to their Contribution to 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 notifies the Trustee of the Carbon Fund of such purchase, the Trustee of the Carbon Fund may arrange 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 born 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, 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 the Carbon Fund are irrevocable.

Section 8.6 Novation

A Participant may novate all, but not part, of its interest in 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

Article 9 Structure

Section 9.1 Structure

The Facility shall have:

- (a) A Participants Assembly;
- (b) A Participants Committee;
- (c) Subject to Section 12.1, a Carbon Fund Participants Committee;
- (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 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:
 - 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;
 - 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 paragraph (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.
 - (c) In the absence of the Carbon Fund Participants Committee referred to in Article 12.1, the Constituency Meeting for the Carbon Fund Participants shall perform the functions set out in Section 12.1.

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 Plan 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, approving the Readiness Plan submitted by a REDD Country Participant, and assessing progress made in the implementation of the Readiness Plan;
- (c) Where necessary, reviewing the Criteria for Budget Allocation for Preparing and Implementing a Readiness Plan approved by the Steering Committee in accordance with Section 15(b);
- (d) Approving, in accordance with the Criteria for Budget Allocation for Preparing and Implementing a Readiness Plan, the budget allocation proposed by the Facility Management Team for a REDD Country Participant to develop and implement a Readiness Plan;

- (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

- (a) Subject to Section 11.2 (b) below, the Participants Committee shall consist of twenty (20) members, among which:

- (i) Ten (10) members shall be from REDD Country Participants; and
 - (ii) Ten (10) 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.
- (b) If there are fewer than ten (10) REDD Country Participants and ten (10) 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.
- (c) 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).
- (d) 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.
- (e) 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;
- (f) 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 following Annual Meeting, unless the member otherwise retires, resigns or is removed in accordance with subparagraph (g) below;
- (g) 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.

- (h) 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.
- (i) Unless the Participants Committee decides otherwise, the Vice President of 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 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 on 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 preparation and implementation of the Readiness Plan 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 Plan and budget 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 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 arrangement and participation by observers to the meetings of the Participants Committee, for consideration and adoption by the Participants Committee.

Article 12 Carbon Fund Participants Committee

Section 12.1 Role of Carbon Fund Participants Committee

The Trustee of the Carbon Fund may, where necessary, establish a Carbon Fund Participants Committee to be responsible for:

- (a) Reviewing Emission Reductions Programs for the Carbon Fund 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 Committee or the Constituency Meeting of the Carbon Fund Participants, as the case may be;
- (b) Selecting one or more Emission Reductions Programs for the Carbon Fund from a REDD Country Participant whose Readiness Package has been approved by the Participants Committee;

- (c) Providing guidance to the Trustee of the Carbon Fund on issues relating to specific Emission Reductions Payment Agreements for the Carbon Fund;
- (d) Approving business plans and Annual Budgets for the Carbon Fund proposed by the Facility Management Team; and
- (e) Any other functions necessary to facilitate the operation of the Carbon Fund.

Section 12.2 Constituency Meeting of the Carbon Fund Participants

In the absence of the Carbon Fund Participants Committee, the Constituency Meetings of the Carbon Fund Participants referred to in Section 10.2 (c) shall serve as forum to perform the functions set out in Section 12.1. Without prejudice to Section 10.2 (b) (iii), the Carbon Fund Participants shall make every effort to reach decisions by consensus on matters related to the Carbon Fund. If all efforts at consensus have been exhausted, and no agreement has been reached, decisions shall be taken by a simple majority of the Carbon Fund Participants present and voting at the meeting. The number of votes shall be allocated on the basis of one vote per US\$1,000,000 of the Contribution.

Section 12.3 Rules and Procedures for the Carbon Fund Participants Committee

The Trustee of the Carbon Fund shall develop rules and procedures for the meetings of the Carbon Fund Participants Committee if such committee is established in accordance with Section 12.1 (a). Such rules and procedures shall be adopted by consensus of the Carbon Fund Participants.

Section 12.4 Carbon Fund Participants Committee in a Tranche

If the Trustee opens a Tranche in accordance with Section 4.2(b), the Trustee of the Carbon Fund may, where necessary, establish a Carbon Fund Participants Committee in that Tranche to perform functions set out Section 12.1(a).

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, the Carbon Fund 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 Readiness Plan Idea Notes submitted by Eligible REDD Countries. Such initial review will be focused on completeness and accuracy of the information;
- (b) Proposing Criteria for Budget Allocation for Preparing and Implementing the Readiness Plan 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(d), making arrangements for assisting the REDD Participant Country to prepare and implement its Readiness Plan;
- (d) 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 12.1(a);
- (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

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 Budget Allocation for Preparing and Implementing a Readiness Plan.
- (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 on 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

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 Plan Idea Notes for those Eligible REDD Countries that have been selected as REDD Country Participants, Readiness Plans, 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 Committee referred to in Section 12.1(b);
- (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

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 the Carbon Fund shall have separate records and ledger accounts.
- (b) The Trustee of the Readiness Fund shall provide to the Donor Participants and the Trustee of the Carbon Fund shall provide to the Carbon Fund Participants, audited financial statements, using a Modified Cash Basis of Accounting.
- (c) The auditors shall be the Bank’s auditor as appointed from time to time.

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 and provide statements of such accounts to the Carbon Fund Participants.

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, including the payments under the ERPAs and meetings of the Carbon Fund Participants Committee, shall be borne by the Carbon Fund, including preparation and supervision of implementation of ERPAs.
- (b) Unless the Participants Committee decides otherwise, the Readiness Fund shall bear 65% and the Carbon Fund shall bear 35% of the Shared Costs.

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 Unit 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 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

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 Unit, 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

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 Participants.
- (b) Notwithstanding subparagraph (a) above, the Bank may amend this Charter:
 - (ii) 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
 - (iii) 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;
 - (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
- (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 Section 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 Section 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:

- (a) 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;
- (b) By unanimous vote of the Carbon Fund Participants; or
- (c) Resignation of the Bank as the Trustee 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) The relevant 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 (a) and (b) above, the Trustee will continue to serve as trustee of the Readiness Fund and/or the Carbon Fund, as the case maybe, 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 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 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 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 these Participant if it is unable to do so.

CHAPTER XI

DISPUTES, ARBITRATION AND REMEDIES

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 Instrument or of the Participation Agreement, the terms of the Charter and 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 Trustee of the Readiness Fund and the Carbon Fund 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 Participant Countries

- **Being an Eligible REDD Country**, which is
 - A Borrowing Member State of the IBRD or IDA; and
 - 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:

 - Significant area and carbon stock of forest;
 - 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;
 - Current deforestation or forest degradation rates, or countries whose forest cover is under significant current or projected deforestation or degradation pressure; and
 - 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:

 - Ownership of the proposal by both the government and relevant stakeholders.
 - Coherence between national and sectoral strategies and proposed REDD Strategy;
 - Completeness of information and data provided;
 - Clear responsibilities for the execution of REDD activities to be financed; and
 - 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;
- (iv) 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.

Part III Donor Participation Agreement

DONOR PARTICIPATION AGREEMENT

Between

(“Donor Participant”)

and

**The International Bank for Reconstruction and Development (“IBRD”)
as Trustee of the Readiness Fund under the Forest Carbon Partnership Facility**

(“Trustee of the Readiness Fund”)

_____ (the "Donor Participant"), intending to be legally bound, hereby commits to make a contribution of US\$ _____ (____ U.S. Dollars) (“Contribution”) to the Readiness Fund of the Forest Carbon Partnership Facility, and the Trustee of the Readiness Fund, hereby accepts such Contribution, on the terms and conditions set forth in this Agreement.

The Donor Participant and the Trustee of the Readiness Fund agree as follows:

Article I Definitions

Section 1.01 Capitalized terms hereinafter appearing in this Agreement, but not otherwise defined, shall have the same meaning as that ascribed to them in the Charter, and the terms set forth below shall have the following meanings:

- (a) “Agreement” or “Participation Agreement” means this participation agreement and the attachments attached hereto;
- (b) “Charter” means the Charter Establishing the Forest Carbon Partnership Facility, as amended from time to time; and
- (c) “Facility” or “FCPF” means the Forest Carbon Partnership Facility.

Article II The Charter

2.01 The parties to this Agreement agree to be bound by all the relevant provisions of the Charter attached hereto as Attachment II and incorporated into this Participation Agreement by this reference.

Article III Purpose of the Contribution

The Contribution shall be used in accordance with the relevant provisions in the Charter.

Article IV Payment of Contribution

4.01 The Donor Participant shall pay its Contribution through

- (a) Prepaying the full amount of its Contribution to the prepaid account of the Trustee of the Readiness Fund;
- (b) Issuance and delivery of an unconditional promissory note made payable on demand to the Trustee of the Readiness Fund. The promissory note shall be substantially in the form set forth in Attachment II to this Agreement; or
- (c) Any other form acceptable to the Trustee of the Readiness Fund.

4.02 Demands for Payment from the Donor Participant shall be made on a pro-rata basis and such payment shall be made at the sole discretion of the Trustee for the Readiness Fund, having regard to the financial requirements of the Facility, including the anticipated requirements for disbursements to REDD Country Participants in the Grant Agreements and other activities in support of REDD activities set forth in the Charter.

4.03 The Donor Participant that has made Contribution in accordance with 4.01 (a) agree that the Trustee may transfer the funds from the prepaid account at any time after Demands for Payments have been issued by the Trustee of the Readiness Fund.

4.04 The Donor Participant that makes its Contribution in accordance with 4.01 (b) will be given 30 days' notice to deliver the payment to the Trustee of the Readiness Fund. Any over payment by the Donor Participant will be retained by the Trustee of the Readiness Fund and offset against the following Demand for Payment.

4.05 Interest generated by any prepaid Contribution shall be used for support of the REDD activities under the Readiness Fund.

4.06 When making payment, the Donor Participant shall instruct its bank to include in its payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by the Donor Participant for the Readiness Fund of the FCPF [*state TF number*] , and the date of the

deposit. In addition, the Donor Participant shall provide a copy of the Donor's deposit instruction to IBRD's Accounting Trust Funds Division by e-mail sent to tfremitadvice@worldbank.org with a copy to the Fund Manager specified in Article X or by fax sent to (202) 614-1315.

4.08 The Donor Participant is responsible for all fund transmission and intermediary bank costs associated with the payment of the Contribution.

Article V Additional Contribution

5.01 At any time after the effectiveness of this Participation Agreement, the Donor Participant may offer to the Trustee of the Readiness Fund to make Additional Contributions in accordance with Section 7.1 (c) of the Charter.

5.02 The Donor Participant and Trustee of the Readiness Fund acknowledge and agree that the Donor Participant shall not be obligated to make any Additional Contributions.

5.03 Any offer to make an Additional Contribution shall be made by the Donor Participant through supplementary agreement to this Agreement.

Article VI Administration of the Contribution

6.01 The Contribution shall be administered by the IBRD on behalf of the Donor Participant. The IBRD shall be responsible only for performing those functions specifically set forth in this Agreement and shall not be subject to any other duties or responsibilities to the Donor Participants, 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 IBRD under the Articles of Agreement or any applicable law, all of which are expressly reserved.

6.02 The Contribution funds shall be accounted for as a single trust fund and shall be kept separate and apart from the funds of the IBRD. The Contribution funds may be commingled with other trust fund assets maintained by the IBRD.

6.03 The Contribution funds may be freely exchanged by the IBRD into other currencies as may facilitate their disbursement.

6.04 The IBRD shall invest and reinvest the Contribution funds pending their disbursement in accordance with the IBRD's policies and procedures for the investment of trust funds

administered by the IBRD. The IBRD shall credit all income from such investment to the trust fund established under this Agreement to be used for the same purposes as the Contribution funds.

6.05 The accounting and financial reporting shall be carried out in accordance with Section 18.2 of the Charter.

Article VII Representations by the Donor Participant

7.01 The Donor Participant represents that it has:

- (a) All necessary power and authority to enter into this Agreement and to participate in the Facility; and
- (b) Duly authorized and executed this Agreement.

Article VIII Amendment

8.01 This Agreement may only be amended with the written consent of the parties hereto.

Article IX Termination

9.01 This Agreement may be terminated in accordance with the relevant provisions in the Charter, including:

- (a) Termination of the Readiness Fund of the Facility;
- (b) Withdrawal by the Donor Participant of its participation in the Facility in accordance with Section 7.4 of the Charter; or
- (c) Default in making payment referred to in Section 7.3 (c).

9.02 Notwithstanding Section 9.01, the Trustee of the Readiness Fund may terminate this Agreement upon three (3) months prior written notice to the Donor Participant, in which case the participation in the Readiness Fund by the Donor Participant shall terminate.

9.03 Except in the case set forth in Section 9.01 (b), the following provisions shall apply in the event of termination:

- (a) If the Donor Participant has paid its Contribution in accordance with Section 4.01 (a) of this Agreement, the Trustee of the Readiness Fund shall return the Donor Participant's pro rata share of the Contribution that is not committed by the Trustee of the Readiness Fund or the IBRD prior to the receipt of such notice, 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.

- (b) If the Donor Participant makes its Contribution in accordance with Section 4.01 (b) of this Agreement, the Trustee may, upon receipt of the notice by the Donor Participant of such withdrawal, issue a request of payment (“Balance of Payment”) to this participant listing its pro rata share of the Contribution that has been committed by the Trustee of the Readiness Fund and/or the IBRD, prior to receipt of the notice of such withdrawal, including with limitation, under Grant Agreements and/or any other agreements with any consultant or other third parties for the purpose of the Readiness Fund. This Participation Agreement shall not be terminated until and unless the Trustee of the Readiness Fund has received the full amount of the Balance of Payment by the Donor Participant.

Article X Effectiveness

10.01 This Agreement shall be executed by parties thereto but shall not become effective until and unless receipt by the Trustee of the Readiness Fund, of the prepayment in the case the payment of Contribution is made in accordance with Section 4.01 (a), or a duly signed promissory note in the case the payment of Contribution is made in accordance with Section 4.01 (b).

Article XI Notice

All communications shall be in writing (including telex and facsimile communications), or by telephone (to be promptly confirmed in writing) or, in the case of communications to the Donor Participant, by electronic mail. Each communication will be made to the relevant person at the address, facsimile number, telex, telephone number or electronic mail address, from time to time designated by that party to the others for that purpose. The address, facsimile number, telex, telephone number and electronic mail address so designated are set out below:

Donor Participant:

Name: _____

Address: _____

Attention: _____

Telephone: _____

Facsimile: _____

Telex: _____

Electronic Mail: _____

Trustee:

Name: International Bank for Reconstruction and Development,
as Trustee for the Readiness Fund of the Forest
Carbon Partnership Facility

Address: 1818 H Street, N.W. Washington, D.C. 20433 U.S.A.

Attention: _____

Telephone: _____

Facsimile: _____

Telex: _____

Electronic Mail: _____

PARTICIPANT:

[Name of the Donor Participant]

By: _____
Authorized Representative

Name: _____

Title: _____

Date: _____

PROMISSORY NOTE

1. For value received, _____(the "Donor Participant"), having an address at _____, hereby promises to pay to INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, AS TRUSTEE OF THE READINESS FUND OF THE FOREST CARBON PARTNERSHIP FACILITY (the "Trustee"), having an address at 1818 H Street, N.W., Washington, D.C. 20433, on demand, the sum of US\$ ____ (__ U.S. Dollars) without interest.
2. All or any part of the above sum shall be paid, within 15 days[agreement says 30 days] following demand made in writing or by fax or by electronic mail to [*Participant's Officer's title NOT name (i.e., minister, CEO or company president etc.)*] at the address provided in the Participation Agreement (defined below) by credit of the amount so demanded to the account of the International Bank for Reconstruction and Development with the [Federal Reserve Bank of New York, New York, U.S.A.][is this correct account—will depend of course on decision of currency of contribution (\$ v. Euro) but should \$ account be with Fed or Wachovia?] with the following account designation: "IBRD-T Readiness Fund Forest Carbon Partnership Facility" pursuant to Section xx of the Participation Agreement entered into between _____ and the Trustee and signed by _____ on _____ (the "Participation Agreement").
3. If payment of a part only of said sum shall be demanded and made, a notation of such part payment shall be endorsed on the reverse of this Note or, at the option of the Trustee, a new note, in substantially the same form as this Note, for the sum remaining unpaid shall be executed and delivered in exchange for this Note. Any such notation shall constitute prima facie evidence of the amount remaining under this Note.
4. Donor Participant may pay more than the amounts demanded by the Trustee from time to time but neither such over funding payments nor any other payments made by Donor Participant under this Note shall entitle the Donor Participant to receive, or Trustee to pay, any interest on the principal balance of this Note outstanding from time to time.
5. This Note is executed and delivered pursuant to the relevant provisions of the Charter Establishing the Forest Carbon Partnership Facility and the Donor Participation Agreement.
6. This Note is non-negotiable.

8. The Donor Participant (and the undersigned representatives of the Donor Participant, if any) represents and warrants that it has full power and authority to execute and deliver this Note, the execution and delivery of this Note has been duly authorized and does not conflict with or constitute a default under any law, judicial order or other agreement affecting any, Donor Participant.

9. If the Donor Participant consists of more than one person, the obligations and liabilities of each such person hereunder shall be joint and several.

Date: _____

DONOR PARTICIPANT: _____

By: _____

Name: _____

Title: _____

**Charter Establishing the Forest Carbon Partnership Facility
(Incorporated by Reference)**

Part IV REDD Country Participation Agreement

REDD COUNTRY PARTICIPATION AGREEMENT

Between

and

**The International Bank for Reconstruction and Development
as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility
("Trustee of the Readiness Fund")**

Whereas:

- A. [name of the REDD Country] submitted the Readiness Plan Idea Note to the Forest Carbon Partnership Facility (the "**Facility**" or the "**FCPF**") to apply for participation in the Facility; and
- B. The Participants' Committee [Steering Committee], in its decision [PC No__], accepted the participation by [name of the country] as a REDD Country Participant ("**REDD Country Participant**") in the Readiness Fund by approving the Readiness Program Plan Note and allocating the budget for implementation.

The REDD Country Participant and the Trustee of the Readiness Fund enter into this Participation Agreement on the terms and conditions set forth below:

Article I Definitions

Section 1.01 Capitalized terms hereinafter appearing in this Agreement, but not otherwise defined, shall have the same meaning as that ascribed to them in the Charter, and the terms set forth below shall have the following meanings:

- (d) "**Agreement**" or "**Participation Agreement**" means this participation agreement and the attachments attached hereto;
- (e) "**Charter**" means the Charter Establishing the Forest Carbon Partnership Facility, as amended from time to time; and
- (f) "**Facility**" or "**FCPF**" means the Forest Carbon Partnership Facility.

Article II The Charter

2.01 The parties to this Agreement agree to be bound by all the relevant provisions of the Charter attached hereto as Attachment II and incorporated into this Participation Agreement by this reference.

Article III Commitment

3.01 The REDD Country Participant declares its commitment to develop a Readiness Action Plan on the basis of the Readiness Plan Idea Note contained in Attachment I to this Agreement, and to implement such plan.

3.02 The Trustee of the Readiness Fund shall, in accordance with Decision PC [No____] and subject to availability of funds in the Readiness Fund and decision by the Trustee of the Readiness Fund, extend to the REDD Country Participant a grant(s) for assisting it to fulfill its obligations referred to in Section 3.01 of this Agreement.

3.03 For the purpose of Sections 3.01 and 302 of this Agreement, the REDD Country Participant, immediately after execution of this Agreement , shall enter into one or more than one Grant Agreement with the Trustee of the Readiness Fund, in which it will set forth, *inter alia*, timetable for implementation and conditions for disbursement of the grant.

Article IV Representations by the REDD Country Participant

5.01 The REDD Country Participant represents that it has:

(c) All necessary power and authority to enter into this Agreement and to participate in the Facility; and

(d) Duly authorized and executed this Agreement.

5.02 The REDD Country Participant acknowledges that being a Participant in the Facility does not in any way, guarantee that an Emission Reduction Program it proposes in accordance with Section 6.4 (b) of the Charter and Emission Reductions generated from such program will be selected or purchased under the Carbon Fund of the Facility.

Article V Amendment

6.01 This Agreement may only be amended with the written consent of the parties hereto.

Article VI Termination

6.01 This Agreement may be terminated in accordance the relevant provisions of the Charter, including:

- (d) Termination of the Readiness Fund of the Facility in accordance with Article 22 of the Charter, in which case Section 24 (a) (iv) of the Charter shall apply; or
- (e) Withdrawal by the REDD Country Participant of its participation in the Facility in accordance with Section 6.6 of the Charter, in which case Section 6.6 (b) of the Charter shall apply.

6.02 Notwithstanding Section 6.01, this Agreement may be terminated by the Trustee of the Readiness Fund upon three (3) months prior written notice to the REDD Country Participant, in which case the participation in the Facility by the REDD Country Participant and its right in the Grant Agreement to receive the grant that has not been disbursed by the Trustee of the Readiness Fund, shall be terminated.

Article VII Effectiveness

7.01 This Agreement shall become effective on the date as of which it has been executed by the parties thereto.

Article IX Notice

All communications shall be in writing (including telex and facsimile communications), or by telephone (to be promptly confirmed in writing) or, in the case of communications to the REDD Country Participant, by electronic mail. Each communication will be made to the relevant person at the address, facsimile number, telex, telephone number or electronic mail address, from time to time designated by that party to the others for that purpose. The address, facsimile number, telex, telephone number and electronic mail address so designated are set out below:

REDD Country Participant:

Name: _____

Address: _____

Attention: _____
Telephone: _____
Facsimile: _____
Telex: _____
Electronic Mail: _____

Trustee:

Name: International Bank for Reconstruction and Development,
as Trustee for the Readiness Fund of the Forest
Carbon Partnership Facility

Address: 1818 H Street, N.W. Washington, D.C. 20433 U.S.A.

Attention: _____
Telephone: _____
Facsimile: _____
Telex: _____
Electronic Mail: _____

PARTICIPANT:

[Name of the REDD Country Participant]

By: _____

Authorized Representative

Name: _____

Title: _____

Date: _____

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT, AS TRUSTEE OF THE READINESS FUND OF THE
FOREST CARBON PARTNERSHIP FACILITY**

By _____

Name: _____

Title: _____

Date: _____

READINESS PLAN IDEA NOTE

**CHARTER ESTABLISHING
THE FOREST CARBON PARTNERSHIP FACILITY**