

**Forest Carbon Partnership Facility
Carbon Fund
Third Meeting (CF3)
Asunción, Paraguay, March 24 and 26, 2012**

Chair's Summary

Dear Carbon Fund Participants and Observers,

I would like to thank the Carbon Fund Participants and observers from REDD Country Participants, Indigenous Peoples' organizations, non-governmental organizations, and private sector who took part in the third meeting of the FCPF Carbon Fund (CF3) on March 24 and 26, 2012 in Asunción, Paraguay. The Facility Management Team (FMT) of the FCPF and all participants in the meeting would like to thank the Government of Paraguay for hosting it.

Please find below the main conclusions from the meeting, which are also being translated in French and Spanish. All background materials, presentations, Resolutions and this summary are available on the FCPF website at <http://www.forestcarbonpartnership.org/fcp/node/396>.

Proposed changes to ER-PIN template

- The FMT presented changes that have been made to the Emission Reductions Program Idea Note (ER-PIN) template. Key feedback received includes:
 - There was support for the emphasis the existing template places on monitoring non-carbon benefits (including on biodiversity, poverty and adaptation), on making linkages with the UNFCCC safeguards information systems. There was a proposal to make monitoring of co-benefits voluntary.
 - It was emphasized that the link to the national REDD+ strategy should be strengthened, to ensure that the ER Program is strategically relevant and contributes to the strategy rather than just being 'consistent with' the strategy. Additional details on overall financing of the potential program could be important, such as the potential income from annual volumes of emission reductions, whether the fact that the Carbon Fund would only purchase a portion of ERs affects the overall feasibility of the program, how will activities, funds and rights be treated after the ER Program ends, will the program entity request advanced funding if applicable, etc.?
- The ER-PIN template is a living document. The FMT will revise the ER-PIN template as needed from time to time based on feedback received, while also noting that further revisions may be needed if important issues arise during the Participants Committee's discussion of guiding methodological principles.

Early ideas on potential ER Programs

- Following an earlier presentation at CF2, Costa Rica presented more details on a possible ER Program for the Carbon Fund. The presentation raised some important issues that need to be addressed, such as what level of uncertainty on emission reductions Carbon Fund Participants are willing to accept. It was recognized that this is a challenge for REDD+ as a whole rather than just the Carbon Fund, and that there was still interest in exploring further how countries like Costa Rica could potentially benefit from an ERPA with the Carbon Fund, e.g., by agreeing on trajectories for in-country methodological improvements designed to reduce uncertainties over time.
- Ghana and Nepal presented their early ideas on potential ER Programs.

- The meeting appreciated the three presentations, and it was agreed that such presentations would be welcomed at future meetings, in order to provide early feedback to REDD+ countries, and to learn early lessons that can inform early decisions taken by the fund.

Processing steps from ER-PIN to ERPA

There was agreement on a number of issues related to the processing of and decision-making around ER-PINs.

Who can propose an ER-PIN?

- There was consensus that an ER-PIN should be submitted by the national government or by another body clearly endorsed by the national government. Such authorization should be part of the ER-PIN submission.

When can ER-PINs be presented and reviewed?

- It was agreed that ER-PINs should be formally presented only after the guiding principles on the key methodological framework, and after guidance on the Readiness Package components, are provided by the Participants Committee (both currently expected in June 2012).
- Before ER-PINs are presented, early presentations of ideas by countries continue to be encouraged, however, using the existing draft guidance.
- A one-time allocation of \$200,000 was approved to support REDD+ countries in developing their ER-PINs, to be used by the FMT and World Bank Regional staff.
- It was agreed that, to the extent possible, Carbon Fund Participants will review ER-PINs in batches rather than on a rolling basis, to be able to compare ER-PINs against each other. There could potentially be three batches per year, corresponding to Carbon Fund meetings, and submission deadlines for each meeting will need to be set.
- It was expected that the review of ER-PINs by the Carbon Fund would be aided by assessment criteria and TAP reviews. The FMT will propose criteria for selecting ER-PINs into the pipeline of the Carbon Fund to the Carbon Fund Participants for adoption at CF4, building as appropriate on elements from the issues note, the emerging methodological framework, and the Readiness Package, as appropriate. Upon review of an ER-PIN, Carbon Fund Participants would decide either to include the ER-PIN into the Carbon Fund pipeline, to support the ER-PIN development with financial resources for further improvements, or not to include the ER-PIN, on a case-by-case basis. ER-PINs not included may be modified and presented again in a subsequent batch.
- Once an ER-PIN is included into the pipeline, a Letter of Intent (LOI) would be negotiated.
- Once a Country's R-Package is endorsed by the Participants Committee, the Country may formally submit an ER-Program Document to the Carbon Fund.

How will ER-PINs/ER-Programs be processed?

- There was discussion on the need for exclusivity at the LOI stage. This was particularly emphasized by the private sector participants, and noted as particularly important if advance payments were to be approved. At the same time, there was recognition that the Carbon Fund aims to catalyze and 'crowd in' rather than 'crowd out' other players, and that the exclusivity probably should only be for an ER volume relevant to the likely volume of the Emission Reductions Payment Agreement (ERPA). The language in the LOI would clearly signal that the LOI does not automatically mean an ERPA would be entered into, given that the Fund aims to promote competition even among ER-PINs with LOI signed, and to only enter into about five ERPAs. The Trustee will prepare a template for the LOI for review by the Carbon Fund.

- The FMT presented different ideas on how to phase funding provided for ER-PIN/ER-Program development, so as to balance the amount of ‘money at risk’ with the likely need for some limited funding to encourage and support the development of ER-PINs/ER-Programs. In addition to the \$200,000 (across the portfolio) that was approved to support the development of ER-PINs, the FMT proposed the following for the Carbon Fund Participants’ consideration at future CF meetings:
 - After an ER-PIN is reviewed, additional funds could be provided to support further enhancement of each ER-PIN if needed; and
 - If after reviewing the enhanced ER-PIN Participants then decide to sign a Letter of Intent, additional funds could be allocated to support development of an ER-Program and negotiation of an ERPA.
- Building on this, Participants requested the FMT to provide further information on possible phasing of funds and recovery of costs. The FMT was tasked with revising and updating FMT Note CF-2012-1 (Processing Guidelines for the CF) taking into consideration the discussions at this CF meeting.

Update on road map to ERPA General Conditions

- Participants agreed on the importance of moving forward and in principle supported an ambitious timeline for adopting the ERPA General Conditions, but ultimately agreed on a more conservative timeline, to ensure that all countries are on board in the process and recognizing the complexity and novelty of the concepts. The timeline is as follows:
 - Endorsement of ERPA Term Sheet by PC following PC13 (October 2012);
 - Endorsement of ERPA General Conditions by PC at PC14 (March 2013);
 - Endorsement of LOI template by CF Participants following CF5 (October 2012); and
 - Negotiations of the first ERPA following PC14 (March 2013).
- Participants agreed there is still a need for an educational process, and supported the idea of the FMT holding workshops or webinars with FCPF Participants if there is demand. Participants are encouraged to review the detailed presentation provided at the meeting and provide written feedback to the FMT to guide their further work on the legal document templates.

Update on progress of PC Working Group on the Methodological and Pricing Approach

Update on PC Working group

- The PC Working Group progressed in its discussions to recommend to the PC guiding principles on the key methodological framework, and policy guidance on pricing methodologies to the Carbon Fund.
- There was strong convergence in the group on a set of carbon accounting, programmatic, and pricing elements, and good progress was made between the two days of the Carbon Fund meeting and following the meeting.
- That said, a number of issues remain to be resolved. The Working Group will continue its work and report back to CF4 and PC12 in June 2012.

Carbon Fund activities to continue work on Methodological and Pricing Approach

- It was discussed that once the PC provides guiding principles on the key methodological framework for the Carbon Fund, further work will be required to develop a more detailed methodological framework. This work will be performed by the Carbon Fund. The PC will be informed of the progress on this.
- There was emphasis on the importance of REDD+ country participation in the process.

- Participants agreed to establish a Carbon Fund Working Group that CF Participants will self-select into, and ensure there is REDD+ country representation. A budget for this Working Group will be proposed in June, and the mandate of the Working Group will begin in June in order to:
 - Provide feedback and advice to the FMT, as requested, during its development of a preliminary draft methodological framework for consideration by the Carbon Fund Participants at CF5 (October 2012). Meeting with WG to discuss, including REDD+ countries: potentially in September 2012; and
 - Present draft MF and pricing approach to CF: potentially in October 2012.
- Participants agreed to use a single Carbon Fund TAP to support both the CF Participants and FMT (as opposed to one for each), including reviewing other regimes' standards, methods and pricing.

Monitoring arrangement for the Carbon Fund

The FCPF Charter stipulates that the FMT will provide annual progress reports on the FCPF. The FMT has since received requests for such reporting to occur every six months. The Participants agreed through a resolution that the FMT will propose an arrangement to this effect for adoption by the Carbon Fund Participants at one of the upcoming meetings.

Adoption of Resolutions

At the time Participants reviewed the Resolutions to be adopted, there were not enough Participant representatives with the authority to vote to constitute a quorum. Those present agreed on the resolutions, but the Resolutions have been circulated to all Participants for formal adoption on a 14-day no-objection basis (by April 10, 2012). Given that no objection has been received, the Resolutions are formally adopted. To avoid such situations in the future, it was requested that if a Participant is unable to attend a meeting, the Participant should select a proxy to vote on its behalf, to facilitate the decision-making progress.

Finally, the meeting appreciated the efforts of private sector participants that were unable to travel to Paraguay to meet in Paris and connect via video link. Due to circumstances outside of the FMT's control, the connection was down for large parts of the meeting.

I would like to thank everyone again for contributing to a fruitful meeting, and special thanks to the FMT for all their support. I look forward to making further progress in the run-up to and at the next Carbon Fund meeting (CF4), which is tentatively scheduled for June 24-25, 2012 in Santa Marta, Colombia. Please do not hesitate to contact me or the FMT at fcfsecretariat@worldbank.org if you have any questions or concerns.

Sincerely,

Andreas Dahl-Jørgensen
Norway