

**Forest Carbon Partnership Facility (FCPF)
Sixth Meeting of the Carbon Fund (CF6)
Washington, DC, March 15-16, 2013**

Chair's Summary

Dear Carbon Fund Participants and Observers,

I would like to thank the Carbon Fund Participants (CFPs) and Observers from REDD Country Participants, as well as representatives of Indigenous Peoples' organizations, non-governmental organizations, and the private sector who took part in the sixth meeting of the FCPF Carbon Fund (CF6) on March 15-16, 2013 in Washington, DC.

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/carbon-fund-sixth-meeting-cf6-march-15-16-2013-washington-dc>.

Announcement on FMT staff changes

- Before the start of the meeting, Benoît Bosquet announced that he has accepted the position of Sector Manager for Environment, Natural Resources Management, Water Resources Management and Disaster Risk Management in the World Bank for a number of countries in Africa, and that Simon Whitehouse, FCPF Fund Manager, will be Acting Partnership Coordinator until a new FCPF Partnership Coordinator has been recruited.

Selection of Costa Rica's Emission Reduction Program Idea Note (ER-PIN) into the Carbon Fund pipeline

- Costa Rica presented revisions made to its ER-PIN as requested by CFPs in Paris in October 2012 (refer to Resolution CFM/5/2012/1). CFPs welcomed the progress made, acknowledged the exceptional government commitment, and noted the good integration of the ER Program in the country's national strategy for a low carbon economy. There were discussions on:
 - The impact of proposed monoculture plantations on biodiversity and sustainability of the Program;
 - The status of additional consultations undertaken in the country; and
 - The approach to assess the displacement of emissions (leakage) given the geographic distribution of Costa Rica's proposed interventions.
- CF Participants adopted a resolution (see [Resolution CFM/6/2013/1](#)) to include Costa Rica's ER-PIN in the CF pipeline, to release US\$450,000 to support the development of the ER-PIN into an ER-Program Document, and to authorize the Trustee to negotiate a Letter of Intent (LOI) with Costa Rica, substantially in a form of the template attached to the Resolution for a Maximum Contract Value of up to US\$63 million and a Maximum Contract Volume of up to 12 million ERs.
- **Follow up action:** It was agreed that the Trustee will submit the negotiated LOI for Costa Rica to the CFPs for a 14 calendar day review period. If, at the end of the Review Period, the CFPs have no objections, the Trustee will enter into the LOI with Costa Rica.

Sharing of early ideas for ER programs

- Ethiopia and the Republic of Congo made first presentations of early ideas for their ER-Programs. Vietnam provided an update on development of an ER-PIN since the last meeting of the Carbon Fund and in its presentation responded to questions raised by the CFPs at that time.
- CFPs welcomed the diversity of the proposals and acknowledged the high quality of the presentations made. At the same time, CFPs also expressed concern that it is not possible to provide in-depth feedback and technical guidance to countries in an ad hoc manner upon delivery of presentations. Consequently, CFPs requested the FMT to set formal deadlines for the submission of ER-PINs and early ideas for ER-PINs well in advance of Carbon Fund meetings, to allow CFPs adequate time (e.g., 3 weeks) to consult internally and provide meaningful feedback to countries during CF meetings.
- **Follow up action:**
 - Based on CFPs' feedback, the FMT set the following schedule for submission of ER-PINs or presentations of early ideas for the seventh Carbon Fund meeting, to be held in Paris, France, on June 24-25, 2013:
 - Submission of ER-PINs and early idea presentations to the FMT by Monday, May 27, 2013 (four weeks prior to CF meetings).
 - FMT to post ER-PINs and early ideas on the FCPF website by Monday, June 3, 2013 (three weeks prior to CF meetings).
 - Acknowledging that in-depth feedback and technical guidance is not possible in an ad hoc manner during meetings, **CFPs are encouraged to submit additional feedback in writing** on the presentations of early ideas given by Ethiopia, the Republic of Congo and Vietnam at CF6, and on future presentations as well, to guide further development of emerging ER Program ideas.

Update on development of other potential ER Programs

- The FMT provided an update on the development of potential ER Programs in the nine countries that have previously presented early ideas (Democratic Republic of the Congo, Ethiopia, Indonesia, Mexico, Ghana, Nepal, Republic of Congo, and Vietnam) or an ER-PIN (Costa Rica). The FMT's presentation also included information on *how* ER Programs are identified and on the *role* of the different stakeholders in the process.
- CFPs discussed the feasibility of signing between five and nine LOIs by 2015 – a target that was previously discussed to build a desired portfolio of programs and to maximize the duration of ER Programs during the Fund's existence. In this context, the FMT clarified that there is no cut-off date for signing LOIs, but that 2020 is the legal term of the Carbon Fund (payments are not possible beyond that date). Nonetheless, ER Programs can (and are expected to) extend beyond this timeframe assuming that subsequent payments may come from other sources.
- **Follow up action:**
 - CFPs stressed the importance for them to be strategically and more actively engaged in ER Program origination and development. This may be accomplished through coordinated discussions on CF pipeline development amongst CFPs and respective communication with the FMT. CFPs may also engage directly with countries on a bilateral basis to provide guidance and feedback on the development of ideas and options for potential ER Programs. The FMT is available to provide available background material or updates on the status of potential ER Programs as needed.

- In the context of direct support of CFPs to eligible countries for ER Program development, it was discussed that potential conflicts of interest would be handled on a case-by-case basis. CFPs requested the FMT to provide guidance at CF7 on circumstances that would constitute a conflict of interest.
- On the request of CFPs, the FMT will prepare outreach material to provide an easy-to-read overview on the Carbon Fund to potential ER Program developers.

Discussion of draft Letter of Intent (LOI) template

- CFPs discussed revisions made to the draft template of the LOI. The FMT clarified that:
 - Key parameters that Buyer and Seller agree on in a LOI are the 'Maximum Contract Value' and the 'Maximum Contract Volume'.
 - The LOI will be a public document once it is signed.
- In response to questions from CFPs on the commitment of the Carbon Fund to enter into an ERPA once an LOI is signed with a country or an authorized entity, the FMT clarified that an LOI is a legally binding agreement whereby parties agree to enter into negotiations within a defined exclusivity period. However, if parties cannot agree or conclude negotiations, neither party can be forced to enter into an ERPA.
- The FMT also clarified that the LOI is not a document regulated under the FCPF Charter and accordingly there is no formalized process under the Charter with regard to the LOI adoption. Instead, the LOI is a document that protects both the buyer and the seller during the development stage from ER-PIN to ER-Program Document.
- **Follow up action:** The FMT was asked to prepare disclosure guidelines for the Carbon Fund similar to those for the Readiness Fund. These guidelines will follow the World Bank Access to Information Policy.

Term Sheet setting out the general principles of a future Emission Reductions Payment Agreement (ERPA)

- The FMT recalled that the ERPA Term Sheet is not a legally binding document, but instead provides for general elements that are supposed to guide the Trustee's upcoming work in drafting an ERPA that combines a set of commercial ERPA terms (negotiable) and ERPA General Conditions (non-negotiable). The FMT presented revisions made to the ERPA Term Sheet, including:
 - A Safeguards Plan (advanced draft) must be available before CFPs decide to start ERPA negotiations.
 - The term 'Performance Report' is changed to the term 'ER Monitoring Report', to clarify that this report relates to the monitoring results of ERs generated under the ER Program.
 - Language on reporting requirements for Non-Carbon Benefits has been revised. The Seller is to provide as much information on Non-Carbon Benefits as feasible. However, a negative assessment of the information provided would not lead to an Event of Default.
 - It was clarified that a grievance redress mechanism may also be part of one or more Safeguards Plan(s), if required.
- **Follow up action:** Subsequent to the agreement of the draft ERPA Term Sheet by the CFPs, the ERPA Term Sheet was presented to the Participants Committee at its fourteenth meeting (PC14, held March 19-21, 2013) for endorsement. The PC endorsed the ERPA Term Sheet (see **Resolution PC/14/2013/9**) and, subject to the evolving methodological framework for the Carbon Fund of the FCPF, requested the Trustee to provide a first draft of the ERPA General Conditions for PC's review by PC 15 and a revised draft of the General Conditions, if necessary, for PC's approval by PC 16.

Update on Progress with developing the Methodological Framework

- The FMT provided an update on the progress made by the CF Working Group and in the REDD+ Design Forums with the development of the Methodological Framework. The FMT expects to present the final draft Methodological Framework for CFPs' consideration at the eighth CF meeting (October/November 2013).
- Overview on process:
 - Two REDD+ Design Forums (one on forest monitoring and carbon accounting, reference level design, emission displacements, and reversals, and one on safeguards, benefit sharing, and feedback and grievance redress mechanisms) have taken place.
 - A third REDD+ Design Forum is scheduled for April (on carbon rights, non-carbon benefits, Registries, and Finances).
 - A follow-up meeting by the CF Working Group is planned for late May, and possibly another in June.
 - A fourth REDD+ Design Forum could be held in September if needed.
 - Early draft criteria and indicators for some topics were discussed by the CF Working Group.
- CFPs appreciated the progress made and acknowledged the pioneering work that is feeding into the development of the Methodological Framework. Participants raised the following questions relevant to the technical discussions in the CF Working Group and the REDD+ Design Forums:
 - Concern was expressed over the fact that emission displacement (leakage) and reversals are only grouped with carbon accounting and not with safeguards in the context of the REDD+ design forum, which is not consistent with the UNFCCC guidance. The need to identify and address differences between World Bank Operational Policies and Cancun safeguards, or other relevant UN provisions on REDD+ safeguards and non-carbon benefits was highlighted, with a view to streamline, reduce and simplify the reporting burden on REDD+ countries.
 - CFPs asked how the guidance and knowledge generated in the CF Working Group and REDD+ Design Forums could best inform the readiness process in countries to ensure synergies.
 - The Chair highlighted the importance of considering major risks to REDD+ sustainability (e.g., leakage, reversals, lack of participation/ownership, inconsistency with development goals, maladaptation, etc.) in a consistent manner, possibly in relation to buffer mechanisms and non-carbon benefits.
 - CFPs acknowledged the importance of having a balanced composition of stakeholders in the CF Working Group, but also of ensuring that composition remains streamlined to enable effective decision making. It was noted that the REDD+ Design Forums provide a more appropriate setting for broader discussion and exchange of ideas.

Follow-up action:

- The FMT will consider inviting more representatives from REDD Countries that are making significant progress with REDD+ readiness and/or ER-PIN development to the REDD+ Design Forums and/or CF Working Group meetings.
- The FMT will provide information on how World Bank Operational Policies relate to Cancun safeguards.
- The chair suggested that the FMT may consider buffers and buffering rates as part of its ongoing work on sustainability under the Methodological Framework (Issue Paper 12).

Update on the Pricing Approach

- The FMT provided an update on issues relevant to the development of a Pricing Approach for the Carbon Fund. It was emphasized that there is very little applicable or useful reference data to determine prices for

the Carbon Fund. As such, a pricing approach was suggested in accordance with the adopted Guiding Principles on pricing (Resolution PC/12/2012/3).

- The FMT clarified a number of questions:
 - The proposed pricing approach invites CFPs to consider ER-Programs' costs and financial viability as key information and a starting point for price negotiation. The FMT emphasized that in any case, the Carbon Fund payments will only represent a (small) portion of the ER-Programs' financing sources that ensure financial viability.
 - Non-carbon benefits are part of price considerations in accordance with Pricing Element 4 of the adopted Guiding Principles, but not necessarily through the application of a premium. The FMT suggested that a strategy for the treatment of non-carbon benefits be adopted by the CFPs to ensure fairness across ERPAs.
- There were extensive discussions on the following aspects:
 - Cost analysis and financial viability as a basis for price negotiation: CFPs agreed with the need for costs and financial viability analysis to be done by the Sellers to assess their willingness to receive payments, but considered that these parameters should not be the only ones informing price negotiation.
 - Capacity building of REDD Country Participants on costs assessment and financial analysis of their ER-Programs: The FMT provided an update on the REDD+ Cost Assessment Tool being developed by the World Bank, which can be used for the purpose of ER-Program cost analysis.
 - Treatment of non-carbon benefits in pricing: A strategic view for the treatment of non-carbon benefits is needed but CFPs felt that such a strategic view should not be reflected in the pricing approach. Non-carbon benefits would be negotiated on a case-by-case basis.
 - Fixed vs. variable price: It was agreed that under current conditions, fixed pricing is preferred, but the decision on having fixed and/or variable pricing will depend on conditions at the time of ERPA negotiations and the possibility of having a relevant price reference to which a floating portion could be indexed. The possibility of using a single fixed price across all ERPAs was also mentioned by Participants, as well as the need to consider pricing in relation to i) the total volume of ERs to be bought by the CF, and ii) the total amount of funds available to do so.
 - Setting up a minimum and maximum price for the Carbon Fund that would apply to all ERPAs: The Carbon Fund could consider setting up a price range for the Carbon Fund, which would help REDD Countries design their ER-Programs and seek other sources of financing.
 - Advance Payments: CFPs need to further elaborate their strategy regarding Advance Payments, and are interested in exploring tools and insurance mechanisms securing such Advance Payments.
- **Follow-up action:**
 - The FMT will present the REDD+ Cost Assessment Tool and decide how capacity building efforts should be organized.
 - The FMT will explore tools and insurance mechanisms that may secure Advance Payments.

Update on marketing the Carbon Fund to the private sector

- The FMT provided an update on progress made in marketing the Carbon Fund to the private sector:
 - Fundraising letters from governments of CFPs went out to a prioritized set of private companies. Letters from the World Bank's Vice President to remaining targeted companies will be sent out shortly.
 - An update from BHP Bruggler and Partners is expected at the end of April 2013. An update from Lion's Head on the follow up with the 18 companies that have been prioritized and targeted as part of the marketing campaign will be available in June 2013.

- Justin Adams from Lion's Head Global Partners provided his perspective on the efforts to market the Carbon Fund to the private sector. He emphasized the reluctance of the private sector to invest capital in the Carbon Fund in view of carbon market trends and provided ideas for potential new opportunities to engage private sector earlier on in program development and implementation.
- CFPs emphasized the immense learning value of the engagement of private sector in the Carbon Fund.
- CFPs discussed whether the Carbon Fund should be closed for financial contributions. The FMT clarified that this should happen before an ERPA is signed, and also that it is possible to reopen the Fund later on. In the past, other Funds have reopened and additional Participants were accepted but charged a late fee.
- **Follow up action:**
 - CFPs decided to postpone a decision on closing the Carbon Fund to further contributions to its next meeting in June 2013 when additional information on the progress of marketing efforts will be available.
 - It was also agreed that the private sector marketing strategy may need to be revisited at that point in light of the changed market conditions.

Stocktaking of progress made in achieving objectives of the Carbon Fund

- The FMT provided an update on progress made against six-months, one-year and three-year objectives established by the CFPs at CF1 in May/June 2011.
- CFPs expressed concern about the number of ER-PINs available at this stage and the realistic prospects of additional high-quality ER-PINs to be submitted for selection (including subsequent signing of LOIs) over the course of the next year as per Carbon Fund targets (i.e., in accordance with the FCPF M&E Framework).
- CFPs discussed trade-offs between timely presentation of ER-PINs and signature of LOIs and the need to ensure an inclusive and participatory process for the development of ER Programs, to address capacity building needs for all stakeholders involved in REDD+ countries, and to develop a clear, yet not overly prescriptive or burdensome Methodological Framework. CFPs also touched upon the sequencing of REDD+ readiness and CF implementation and the synergistic benefits that early ideas for ER-PINs can have on REDD+ readiness.
- **Follow up action:**
 - Participants requested the FMT to prepare a visual tool to facilitate tracking of progress made against targets and objectives set out in the M&E Framework.

Strategic discussion on use of additional funds

- Since the long-term financial plan for the Carbon Fund was presented at CF6 in October 2012, substantial additional contributions have been made to the Carbon Fund by Norway (US\$108 million) and Germany (US\$60 million). With the Carbon Fund now capitalized at US\$390 million, a strategic discussion on the use of additional funds was needed. CFPs discussed the trade-offs between assuming i) five ER Programs and ii) up to eight ER Programs, taking into account costs, the 2020 closing date of the FCPF, necessary pipeline development, the scope of ER Programs and FMT capacity and potential staff needs.
- There was general agreement among CFPs to maintain the original target of about five ER Programs under the Carbon Fund at this stage assuming it would allow for sufficient diversity across the portfolio. This would mean that each ER Program may have an approximate value of US\$60-75 million. The target could be reconsidered at a later stage.

Virtual adoption of the FCPF monitoring and evaluation framework

- As of Friday, March 15, 2013, the PC Resolution on the M&E Framework was adopted by virtual means.

In closing

With the first ER-PIN selected into the Carbon Fund pipeline, CF6 marked an important turning point for the Carbon Fund. Next steps to advance from ER-PIN to ERPA have also become more tangible with CFPs' agreement on the Letter of Intent and the Term Sheet, which sets out the general principles for a future ERPA. With clear guidance from CFPs on maintaining the original target of five ER Programs and several ideas under development by countries, it is now a good time for CFPs to engage more actively in the further development of potential ER Programs and to help shape the diverse and innovative portfolio envisaged for the Carbon Fund. Over the coming months, the FMT will focus on important and pioneering work with the further development of the Methodological Framework building on the guidance and inputs of experts around the world and I look forward to learning about progress made at the next Carbon Fund meeting (CF7) in Paris in June. If you have any questions or concerns, please do not hesitate to contact me (Michael.Bucki@ec.europa.eu) or the FCPF at fcpfsecretariat@worldbank.org.

The CFP and Observers expressed their appreciation for the efforts and outstanding results of the FMT under Benoît Bosquet's lead, and would like to thank him once again for his personal commitment to REDD+ objectives.

Sincerely,

Michael Bucki

European Commission