

**Forest Carbon Partnership Facility (FCPF)
Carbon Fund
Tenth Meeting (C10)
Bonn, Germany, June 16-19, 2014
Chair's Summary**

Dear Carbon Fund Participants and Observers,

I would like to thank Carbon Fund Participants (CFPs), delegations from REDD Country Participants, and Observers from REDD Country Participants, Indigenous Peoples' organizations, non-governmental organizations, the private sector, the IDB and UNFCCC, who took part in the tenth meeting of the FCPF Carbon Fund (CF10) on June 16-19, 2014 in Bonn, Germany. Please find below the main conclusions from the meeting. All background materials, presentations, resolutions and this summary are available on the FCPF website at <https://www.forestcarbonpartnership.org/CF10>.

Setting the stage for ER-PIN Reviews

The Facility Management Team (FMT) recalled the two decision points for selecting ER programs into the Carbon Fund:

- i) Selection into the pipeline of the Carbon Fund based on an Emission Reductions Program Idea Note (ER-PIN) (concept stage). This leads to the signing of a Letter of Intent (LoI) that confirms the Carbon Fund and Country's intention to proceed with development of the program;
- ii) Selection into the portfolio of the Carbon Fund based on the Emission Reductions Program Document (ER-PD) (full proposal). This leads to the signing of an Emission Reductions Payment Agreement (ERPA) which is a contract to pay for ERs generated by the program.

A key task at CF10 was to review ER-PINs for potential selection into the Carbon Fund pipeline. This was in addition to those that were previously selected into the pipeline: Costa Rica at CF6 in March 2013, and the Democratic Republic of Congo, Ghana, Mexico, and Nepal at CF9 in April 2014.

ER-PIN Presentation and Review

Chile, Peru, the Republic of Congo (ROC), and Vietnam presented their ER-PINs, for potential selection into the Carbon Fund pipeline.

CFPs selected ER-PINs from Chile and Vietnam into the pipeline of the CF, allocated up to \$650,000 for development of an ER-PD, and authorized the Trustee to negotiate an LOI.

CFPs provisionally selected the ER-PIN from the Republic of Congo into the pipeline of the CF, and provisionally allocated up to \$650,000 for development of an ER-PD. The inclusion and allocation are subject to a condition specified in the respective resolution.

CFPs identified key issues for Chile, the Republic of Congo, and Vietnam to take into consideration during the development of their program ideas into full ER-PDs, which are captured below and will be attached to the LOI that is signed with each Country.

CFPs found the ER-PIN from Peru compelling, but did not select it into the pipeline at this meeting. Peru was invited to revise the ER-PIN based on comments provided during the meeting and present it for selection at the eleventh meeting of the Carbon Fund (CF11). If Peru decides to do so, the revised ER-PIN in tracked changes would need to be submitted by the deadline set for ER-PIN submission (September 12, 2014), to inform the discussion at CF11.

Details of the ER-PIN discussions are below.

Chile

CFPs valued Chile's program proposal and the fact that it will focus on addressing degradation in temperate forest, thus adding to the diversity of the Carbon Fund's pipeline. In the further development of the ER Program, CFPs stressed the importance for Chile to give further attention to the following:

- A robust methodology for measuring and monitoring forest degradation should be developed during ER Program development, and presented at ER-PD stage. This should include clarification on how plantations will be accounted for, and evidence related to the assumption that plantations will not be a source of significant emissions over the program period or beyond. The risk and uncertainty levels of the monitoring approach should be assessed.
- Prioritize further progress in Readiness, including:
 - Further strengthening the institutional arrangements by spanning several relevant institutions to ensure broad ownership of the ER Program.
 - Further advancing the Strategic Environmental and Social Assessment (SESA), the Environmental and Social Management Framework (ESMF) and wider consultation processes.
 - Strengthening the benefit-sharing mechanism by, for example, providing more details on how people living within and outside the forest area will benefit as well as by providing information on payment models.

Vietnam

CFPs welcomed Vietnam's ER-PIN, the strong analysis of drivers on which the program proposal builds, the integration of existing REDD+ projects into the ER Program, the land-based approach to carbon accounting, and the collaboration among the Government, bilateral and multilateral development partners (including UN-REDD) and the private sector. In the further development of the ER Program and the ER-PD, CFPs stress the importance for Vietnam to give further attention to the following:

- Review the magnitude and the sources of investments in the financial plan and the ability to implement them during preparation of the ER-PD.
- Maintain consistency of the accounting approach with the Carbon Fund Methodological Framework, including related to eventual guidance on the use of buffers for force majeure events.
- As the proposal has a significant carbon enhancement component, steps should be taken to ensure that natural forests are not substituted by plantation forests.
- As per the Methodological Framework, and to ensure transparency, information that pertains to the construction of the reference level should be made available (e.g., the cited JICA study), and historical emissions and estimated emission reductions should be disaggregated by deforestation and degradation.
- Building on established practice, the capacity of ethnic minority groups in the program area should be strengthened to enhance their full and effective participation in program design and implementation, benefit sharing, as well as safeguards design and monitoring. In this context, Vietnam may consider the implications of the revised Land Law in relation to a land tenure assessment (as per the Methodological Framework).
- Provide more details on how the Vietnam Forest Fund will be administered or managed, and where it will be located.
- Consider development and implementation of a plan to mitigate cross-border leakage with Lao PDR (which borders the program area) related to illegal logging and coordinating interventions with the Forest Law

Enforcement, Governance and Trade - Voluntary Partnership Agreements (FLEGT- VPA). Progress in this respect should be documented and included in the ER-PD.

Republic of Congo

CFPs appreciated efforts made to address issues raised at CF9 and recognized the ambitious geographical scope of the ER program as well as the innovative public-private partnership approach. In developing the ER Program and ER-PD, CFPs stress the importance for RoC to give further attention to the following:

- Ensure relevant staffing and organization of national REDD Coordination (*CN REDD*) to accelerate readiness, in particular in relation to the REDD+ strategy and development of the ER program.
- Explain how existing and planned future policies, such as the Development Plan for the Agricultural Sector (*Plan de Développement du Secteur Agricole; PDSA*), national forest policy and the revised Forest Code, will enable the ER program to address deforestation drivers, in particular palm oil development, across the program area.
- Capture emerging drivers, such as infrastructure, agriculture, mining and other commodities (in particular palm oil), in the portfolio of interventions.
- Demonstrate cross-sectoral coordination of government bodies, including through the National REDD+ Committee and departmental sub-committees, and wider stakeholder participation in the development and implementation of the ER program.
- Elaborate on the further development of safeguards approaches, including the Safeguards Information System.
- Elaborate in detail and provide complete documentation on all the proposed upwards adjustments based on verifiable evidence of accelerated trends beyond those already present in the reference period (refer to Indicator 13.3 of the Methodological Framework).
- Further elaborate on the partnership with private companies, including how their practices are expected to change and what incentives and motivations will be provided to create that change.
- Strengthen collaboration with the institutions in charge of implementing the FLEGT-VPA to address issues linked to illegal logging and leakages.
- Elaborate on measures that are expected to result in strengthened land tenure.

Peru

CFPs appreciated the proposal presented by Peru, in particular the sound analysis of drivers of deforestation, the ambitious scope of the program, the alignment with other relevant ongoing activities, and integration with national strategies and development plans. Peru was encouraged to present a revised ER-PIN to be considered for selection at CF11. The following issues should be taken into consideration for revision of the proposal:

- Review selected accounting area to address fragmentation and adjust to a jurisdictional approach.
- Provide more details about the proposed interventions, including on how they address identified drivers of deforestation and which actors will be involved in the implementation of interventions.
- Provide information on relevant sources of funding for program interventions that are expected to result in generation of ERs for the Carbon Fund. More specifically, describe the complementarity with the Forest Investment Program.
- Demonstrate that readiness progress, in particular establishment of the MRV system, can be accelerated to meet the timescales required by the FCPF.

- Demonstrate consistency of the approach to the reference level and MRV with the Methodological Framework.
- Provide information on the current status of biomass levels and how measurement will be refined during program development.
- Refine the analysis and estimates of forest degradation.
- Demonstrate how existing REDD+ projects and programs will be nested within the proposed ER Program, in particular related to accounting, benefit sharing, etc.
- Clarify whether ER Program development will include analysis of the risks of land use zoning and land tenure interventions, particularly how such interventions may impact land user relationships, paying special attention to Indigenous Peoples and other forest-dependent people. Demonstrate that risk mitigation measures have been or will be incorporated in program design.
- Describe proposed approaches for engagement and participation of Indigenous Peoples living in remote parts of the program area, in ER-Program preparation and implementation.
- Discuss in more detail the relation between benefit sharing and effective land resource rights.
- Prioritize development of the proposed ecological-economic zoning and land cadaster as part of ER Program design.
- Provide additional details on how safeguards related to the ER Program are being and will be addressed during program preparation and implementation.

Sharing Early Ideas on ER-PINs

Cambodia, Colombia, Guatemala, Indonesia, and Madagascar presented their early ideas for a potential ER Program. CFPs welcomed the diversity and high quality of the proposals, and offered feedback on how to improve the early ideas with a view to developing an ER-PIN for presentation at CF11. CFPs recommended to:

Cambodia

- Present a clear timeline for advancing REDD+ readiness and developing the R-Package.
- Elaborate in more detail the scale of illegal logging and describe potential opportunities and challenges to curbing this key driver of deforestation in Cambodia.
- Provide more detailed information on how Reference Levels were developed.
- Clarify how existing REDD+ projects would be nested in the proposed ER Program.
- Provide more details on proposed benefit sharing arrangements, as well as experiences from existing arrangements in pilot projects.
- Explain current concession management and potential plans to hand out new concessions.

Colombia

- Demonstrate institutional capacity to advance REDD+ readiness, develop the ER Program, and progress with implementation of various ongoing and ambitious initiatives to tackle deforestation.
- Clarify compliance with the Carbon Fund's Methodological Framework in terms of developing the Reference Levels and the benefit-sharing mechanism. With regard to the former, specifically clarify how existing REDD+ pilot projects would be nested into a subnational Reference Level.

- Describe in more detail how deforestation driven by mining and agriculture will be addressed in the ER Program and how relevant ministries will be engaged in program implementation. Explain how inter-ministerial coordination will ensue during further ER-PD development.
- Clarify the relationship between the program areas suggested for the ER Program (i.e., the regional environmental authorities - *Corporaciones Autónomas Regionales*), and political jurisdictions, and explain why the environmental authorities were chosen instead of political jurisdictions.
- Elaborate planned inclusion of Indigenous Peoples and Afro-Colombians in the ER Program development and implementation.

Guatemala

- Better elaborate the general scope of the ER Program, including whether specific incentives will be provided to protect natural forest.
- Provide more details about the proposed interventions, including on how they address identified drivers of deforestation and which actors will be involved in the implementation of interventions.
- Provide additional information on the extent to which the ER-PIN has been consulted upon. Further describe how Indigenous Peoples and small farmers will be engaged in ER Program development and implementation. Elaborate on how Indigenous Peoples' rights will be taken into account.
- Clarify how existing VCS REDD+ projects will be nested into the ER Program, specifically with regard to defining the Reference Level and benefit-sharing arrangements. Elaborate consistency with the Methodological Framework in this context. Further describe how relevant stakeholders will be consulted on the proposed nesting approach.
- Review the rationale for taking a sub-national approach and consider opting for a program at national scale, or alternatively, a jurisdictional program covering the area generating the majority of emissions (*Tierras Bajas del Norte*).
- Clarify how the existing climate change law addresses carbon rights and could affect the ER Program.

Indonesia

- Elaborate on the bigger picture context and spell out the role of the ER Program within the national REDD+ initiative.
- Address concerns about the discontinuity of the proposed program areas, resulting technical challenges for carbon accounting (i.e., harmonization of Reference Levels and MRV across the program areas) and potential risks for leakage. Consider a more geographically focused approach, particularly in light of available resources in the Carbon Fund.
- Provide more information on private sector consultation and engagement in program development and their potential role in program implementation. Describe the dynamics of palm oil plantations and the political strategy for local-level buy-in to reduce palm-oil driven deforestation.
- Provide additional information on the role of key institutions, particularly collaboration of the Ministry of Forestry and the REDD+ Agency for program development and implementation.
- Include information on peat in the ER-PIN, if relevant.

Madagascar

- Clarify how the accounting area (eco-region) is linked to government-designated areas.
- Describe clearly how existing REDD+ projects will be nested into the ER Program.
- Consider promoting land tenure security as part of the program interventions.
- Provide more information on how the establishment of the Reference Levels and MRV system will proceed in relation to a national forest monitoring system.
- Further develop the proposed benefit sharing system.
- Describe how illegal exploitation of forest resources as a main driver of deforestation will be addressed as part of proposed interventions to improve forest governance.

Follow up action: Cambodia, Colombia, Guatemala, Indonesia, and Madagascar intend to develop their ideas into ER-PINs for formal consideration at the next CF meeting. The FMT encourages CFPs to provide any additional feedback on the early ideas presented in writing.

Portfolio Management

The FMT reported that [preliminary portfolio simulations](#) confirmed the agreement of CFPs at CF9 to potentially include 10-12 ER-PINs in the pipeline and eventually select 8-9 ER Programs into the portfolio. The final number of ER Programs in the Carbon Fund portfolio will, however, depend on a number of factors, including estimated volumes of ERs that can be generated by each ER Program.

CFPs confirmed their preference to close the pipeline at the next Carbon Fund meeting (CF11) in October 2014 assuming adequate quality of ER-PINs presented at such time. The FMT emphasized that the limited remaining time available for ER-Program development and implementation remains challenging when considering the termination date of the Carbon Fund in 2020.

FY15 Budget Proposal

CFPs adopted a [resolution](#) approving the [Carbon Fund budget for Fiscal Year 2015](#), which begins on July 1, 2014. The FMT also presented a review of estimated expenditures through FY14, with the final FY14 accounts to be provided as part of the FY14 Annual Report before PA7/PC18. Additional details on the proposed FY15 budget and the status of FY14 expenditures are provided in the [FMT Note CFM 2014-1](#).

Buffers and registries

The Carbon Fund's Methodological Framework foresees the use of buffers to manage uncertainty associated with the estimation of Emission Reductions (ERs), risk of reversal and potential risks related to transfer of title to ERs. The FMT presented a [proposed approach for developing the guidelines for these buffers](#), which include modalities and procedures and risk assessment tools, if needed.

CFPs provided no objection for the FMT to start developing the guidelines. CFPs also provided feedback for the FMT to consider as it begins drafting the modalities and procedures. Among other issues, CFPs suggested to consider whether buffers could be adjusted during the course of program implementation, corresponding with respective changes in program risks, and whether buffers should be individual or pooled. The FMT clarified that it will seek input from the CFPs on several issues during the course of developing the guidelines.

The FMT also presented an update on the FMT's work program to develop a centralized ER transaction registry for the FCPF Carbon Fund, and the mechanics of the buffer in the registry. CFPs noted the need to continue to advance the Registry work program in order to provide guidance for ER-Program development.

Follow up action: The FMT will start developing the modalities and procedures for buffers and produce guidance for the proposed Risk Assessment Tool. The FMT will continue to develop specifications for a registry, including options for incorporating buffers, and will also continue to explore registry options based on existing infrastructure in the World Bank.

Update on Carbon Fund milestones

The FMT presented where the Carbon Fund stands with respect to the objectives established by CFPs at CF1 in May-June 2011, and Carbon Fund relevant milestones of the M&E framework.

CFPs welcomed the [stocktaking exercise](#). The next independent evaluation of the FCPF will be carried out in FY15 and CFPs emphasized their interest to be involved in defining the scope of this evaluation.

CFPs agreed on the importance to discuss the long-term future of the FCPF Carbon Fund, its role as a pilot mechanism for results-based payments for REDD+, and its relationship to the Green Climate Fund in one of the next Carbon Fund meetings. In this context, CFPs also agreed to discuss at the next Carbon Fund meeting (CF11) the Carbon Fund's current termination date of December 31, 2020, with consideration of the implications on the length of ER Program implementation.

Follow up action: Once available, the FMT will share the draft Terms of Reference for the next independent evaluation of the FCPF with CFPs, for input.

Norway may share findings from a review of its International Climate and Forest Initiative (NICFI), which includes lessons learned on the FCPF Carbon Fund, if appropriate.

Statements on pricing approach from REDD+ Participant Countries

As REDD Country Observer to the Carbon Fund, Mexico presented a [statement on the pricing approach](#) for the Carbon Fund on behalf of Argentina, Colombia, DRC, Ghana, Mexico and Nepal. While a number of issues were identified in the statement, the main concern was with regard to the inconsistency of a uniform price with the spirit of the pricing approach.

Costa Rica also submitted a [letter on the pricing approach](#). Both letters are available on the CF10 website.

Update on pricing approach

The FMT recalled policy guidance on pricing methodologies provided by the FCPF Participants Committee and summarized the outcome of a series of discussions on pricing issues.

CFPs expressed their collective view on their current willingness to pay, while recognizing that the ultimate price is subject to negotiation at the time of ERPA negotiations. CFPs jointly stated:

In order to provide guidance to REDD Country Participants for their ER Program development, including the preparation of their ER-PD, and acknowledging the policy guidance on pricing methodologies in FMT Note 2012-8 (Recommendations of the Working Group on the Methodological Framework and Pricing Approach for the Carbon Fund of the FCPF) adopted by the PC at PC12 in Santa Marta as well as the views expressed by observers at this CF10 meeting, the Carbon Fund Participants note their current willingness to pay up to US\$5/t CO_{2e}.

In the discussion, CFPs clarified the sources considered to inform their expressed collective view, including: the policy guidance on the pricing methodologies approved by the PC, prior discussions in CF meetings, statements from REDD Countries prior to and at CF10, proposals and information from ER-PINs, external market information, and other REDD+ initiatives that CFPs are bilaterally involved in.

Civil Society Observers raised their concern about the consistency of the pricing signal from CFPs and the guiding principles adopted in the PC. While CSOs acknowledged that the statement does not negate price negotiations

prior to ERPA signature, it was the CSOs' view that it constrains the extent to which a price can be negotiated. CSOs indicated their view that the CFPs' issued statement on "willingness to pay" is not fully consistent with the Pricing Elements in the Guiding Principles for the Pricing Approach adopted by PC12 and suggested that this issue should be raised in a broader forum.

Follow up action: REDD Country Participants are encouraged to continue to provide signals on their expectations regarding a pricing approach in the development of their ER-PINs and ER-PDs, and to share their views amongst each other and with CFPs.

Procedures of Carbon Fund meetings

CFPs and Observers, including REDD Country Observers, discussed procedures of Carbon Fund meetings with the intent to facilitate openness, and noted that:

- CFPs would like to retain the right to hold closed sessions for confidential deliberations, in order to maintain the frankness of such discussions, but will minimize the extent to which closed sessions are called. When closed sessions are called, they will be called within the framework of the meeting.
- The Chair will, in consultation with CFPs, announce in advance if a session will be closed.
- When closed sessions are held, CFPs will inform the plenary on what was discussed after the closed session.
- Input from Observers in advance of and during the Carbon Fund meetings is helpful to the deliberation process, as is information-sharing between Observers and the stakeholders they represent.
- Country-specific discussions in smaller groups/contact groups open to all observers have proven to be effective and useful in framing decisions on ER-PINs.

Draft General Conditions of a future Emission Reductions Payment Agreement (ERPA)

The Trustee provided a [brief update on the roadmap for the endorsement of the ERPA General Conditions and highlighted certain outstanding elements related to ERPA remedies and cost recovery](#). The ERPA General Conditions are based on the ERPA Term Sheet that was endorsed by the PC at the fourteenth PC meeting (Resolution PC/14/2013/9). CFPs provided some initial feedback on the proposed approach to handling ERPA remedies and cost recovery in the General Conditions.

Follow up action: It was agreed that a short note on the issue of cost allocation options in the ERPA General Conditions would be circulated to CFPs together with the Trustee's suggestion on the recommended option to adopt.

Draft ER-PD template and business process

The FMT reported on main changes made to the first draft of the [template for the ER-PD](#), taking into account comments received since CF8. CFPs further discussed the [process for review of ER-PDs and selection of ER-Programs in the portfolio of the Carbon Fund](#). CFPs converged on the following:

- Cost of due diligence should be covered by the Carbon Fund.
- Country-experts should be included in TAP review teams.
- Emphasis should now be placed on support and technical advice to countries to advance ER-Program development.

CFPs noted that FMT staff resources would need to adequately meet the emphasis on country support services.

Follow up action:

- The FMT will circulate the draft ER-PD template to CFPs for a two week review and no-objection period. Barring any objection, the FMT will proceed to use the ER-PD template with REDD Countries.
- FMT will circulate issues related to the ER-PD assessment process and request written comments.

Next meetings

The eleventh Carbon Fund meeting will be held in mid-October 2014 in Washington, DC or in Europe. The FMT will advise on further details as soon as possible.

In closing

CF10 marked accelerated progress in development of the Carbon Fund pipeline and increased competition from REDD Countries presenting early ideas for eventual selection into the Carbon Fund pipeline. With a total of eight program proposals selected, including three new ones at CF10, the pipeline is now two-thirds filled and a diverse and high-quality portfolio is under development. CF10 embodied the character of the FCPF that provides a unique “space” to pilot large-scale REDD+ programs while sharing and building on the collective knowledge, skills and experience public and private CFPs, REDD+ Countries and Observers in a spirit of partnership. With the UNFCCC negotiating meetings having just concluded a few days prior across the River Rhein in Bonn, the important role of the Carbon Fund to deliver on-the-ground, practical insights for piloting performance-based mechanisms for REDD+, along with the role of the UNFCCC to provide long-term international policy framework, has become even more relevant and accentuated.

Last, I would like to thank the Facility Management Team (FMT) for excellent preparation of the CF10 meeting.

If you have any questions or concerns, please do not hesitate to contact me at dmarsh@tnc.org or the FCPF FMT at fcpfsecretariat@worldbank.org.

Sincerely,

Duncan Marsh
The Nature Conservancy
CF10 Chair