

**Forest Carbon Partnership Facility (FCPF)
Carbon Fund
Eighth Meeting (CF8)
Paris, France, December 8-9, 2013**

Chair's Summary

Dear Carbon Fund Participants and Observers,

I would like to thank the Carbon Fund Participants (CFPs), Observers from REDD Country Participants, Indigenous Peoples' organizations, non-governmental organizations, private sector and TAP members, who took part in the eighth meeting of the FCPF Carbon Fund (CF8) on December 8-9, 2013 in Paris, France.

I would further like to thank members of the Working Group for the Methodological Framework for building consensus on a draft framework leading up to CF8.

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/3688>

Discussion on pricing approach

The FMT provided an [update](#) on pricing issues that are relevant to the Carbon Fund and reported on discussions with the Multilateral Investment Guarantee Agency (MIGA) and potential mechanisms to secure Advance Payments under an Emission Reductions Payment Agreement (ERPA).

On risk management options of Advance Payments under an ERPA:

The FMT reported that MIGA could provide insurance to the buyer, i.e., the CFPs, against losses arising from breach or repudiation of a contract by the seller, but that MIGA guarantees for ERPA payments would likely be limited to Tranche A of the Carbon Fund as MIGA can only provide guarantees for "commercial" transactions. The FMT further explained that MIGA would only provide payments under its guarantee if legal action against the recipients of the prepayments had been pursued first and failed.

CFPs requested clarification if under-delivery of ERs could be considered as a case of *breach of contract*. The Trustee's legal counsel advised that under-delivery on the contract terms as per ERPA could qualify as breach of contract. However, it was further explained that legal remedies as per ERPA would apply first, before any legal action could be taken. Legal counsel also advised that experience from other non-land use Carbon Funds has shown that recovery of advance payments has had higher success rates compared to recovery of costs, as advance payments are normally supported by letters of credit.

Conclusion:

CFPs from Tranche A advised the FMT that it is not necessary to advance discussion with MIGA on potential risk guarantees for Advanced Payments under an ERPA at this point.

On the pricing approach for the Carbon Fund:

The FMT summarized considerations related to fixed versus variable pricing and CFPs discussed their respective preferences on the pricing approach for the Carbon Fund.

Preferences from the different CFPs varied widely. Some argued for the simplicity of a fixed price and suggested to consider non-carbon benefits as part of ER program selection rather than as a price component. Preferences included both a fixed price across the entire portfolio as well as setting a minimum and maximum price range for

the price, but keeping the price variable across the portfolio. Others preferred variable pricing based on negotiations, including the option of having floating portions.

Follow up action:

CFPs will continue discussion in a series of facilitated conference calls leading up to the next meeting of the Carbon Fund. To inform these discussions, the FMT will report on experiences made with considering prices prior to existing markets under other Carbon Funds (e.g., the BioCarbon Fund and the Prototype Carbon Fund). The FMT will prepare a schedule for the conference calls and share this with the CFPs.

Update on REDD+ cost assessment tools

The FMT presented an [update](#) on the 'REDD+ Cost Elements Assessment Tool' (RCEAT) that has been jointly developed by the FCPF, the World Bank Institute, and UNDP since 2010. It is based on the 'Opportunity Costs of REDD+ Manual' as well a series of country studies and regional workshops. The purpose of the tool is to provide REDD+ project or program planners with an economic tool to assess all relevant REDD+ cost elements (opportunity, implementation, transaction and institutional costs), as well as reference emissions and REDD+ related emission reductions in a consistent way and to quantify the total abatement costs of a proposed activity. The FMT further compared the REDD+ Cost Assessment Tool with other available tools that have become available to assess costs associated with REDD+, including the cost tool developed by Conservation International designed to assess financial feasibility of REDD+ projects.

Follow up action:

CFPs appreciated the presentation and suggested that future work could expand this analytical work to also consider quantification of non-carbon benefits. CFPs further welcomed the FMT's efforts to pilot the tool in a number of REDD+ countries, especially those considering the development of an ER Program for the CF.

Updated disclosure regime

The FMT presented revisions to [FMT Note CF-2013-2 rev](#) on the draft disclosure guidance for the Carbon Fund that follow the World Bank Access to Information Policy (AIP) and will be annexed to the Process Guidelines for the CF. Revisions related to) posting timeline of ER Program reviews, ii) disclosure of the draft and final Benefit-Sharing-Plan(s), and iii) disclosure of the Carbon Finance Assessment Memorandum (CFAM) resulting from the World Bank's due diligence process.

CFPs agreed with revisions made, but requested feedback from the FMT on the possibility to disclose redacted ERPAs in the event that confidentiality is requested by either Buyer or Seller. The FMT clarified that disclosure of redacted ERPAs is not possible.

Follow up action:

The FMT will provide feedback to CFPs on possible alternatives to make available some information contained in an ERPA in the case that confidentiality was requested as ERPA information is considered valuable for the learning purposes of the Carbon Fund.

Presentation of implications of the Methodological Framework on General Conditions of a future Emission Reductions Payment Agreement (ERPA)

The Trustee presented the process leading to the development of the General Conditions for a future ERPA. The Trustee further elaborated certain [implications of the latest version of the Methodological Framework on the ERPA General Conditions](#), more specifically i) the transfer of legal title to ERs and ii) reversal management mechanisms.

Follow up action:

The Trustee made the presentation publicly available once the MF had been agreed upon by CFPs. It is expected that the ERPA General Conditions will be presented to the PC for endorsement at PC17 in June 2014 or at PC 18 in November 2014.

Presentation on the creation and transfer of Emission Reductions

The FMT presented a [summary](#) of work on REDD+ Registries in FY13, the emerging FCPF strategy on REDD+ data management system and ER registries, as well as the proposed work plan for FY14.

A first objective of the ongoing work is to assess client country needs and to provide tailored capacity building, technical assistance and facilitation support with respect to REDD+ Data Management Systems (DMS) and ER registries. A second objective is to support the creation and transfer of Emission Reductions in the context of the Carbon Fund. The FMT emphasized the main functions of a REDD+ data management system (DMS) vis-a-vis an ER registry which are reflected in section 6.2 of the Methodological Framework.

Taking into account consideration of cost and country capacity, the FMT further suggested that the use of a centralized system to manage the creation, transfer and buffer set-aside of Emission Reductions appears to be the most promising option to suit the needs of the FCPF Carbon Fund. The FMT proposes to use the World Bank Carbon Finance Unit's Carbon Asset Registry and Reporting System (CARS) to perform the aforementioned functions.

The FMT further underscored that the use of a centralized registry for the FCPF Carbon Fund should not preclude the development of a National ER Registry system in more advanced REDD+ countries or the use of third party systems provided that they meet certain requirements that would need to be established by the FCPF or another appropriate entity.

Follow up action:

CFPs agreed on the proposed work program which includes:

The FMT will finalize the current draft on "Good Practice Guidance for REDD+ Data Management System" and continue work in close coordination with the Partnership for Market Readiness (PMR) on the matters included in section 6.2 of the Methodological Framework to provide additional guidance as needed on the issue of REDD+ Data Management Systems and Transaction Registries.

The FMT will continue to provide (on request) in-depth needs assessments and technical guidance to countries in close coordination with the Partnership for Market Readiness (PMR).

The FMT will further continue work for the enhancement of the World Bank's Climate Asset and Registry System (CARS) to serve as ER registry for the Carbon Fund within the limitations of the system.

Presentation on the draft ER-PD template

The FMT presented a [zero draft ER-PD template](#) and provided a detailed [comparison](#) of the template to the ER-PIN template.

Follow-up action:

The FMT will revise the template taking into account first feedback received at CF8 and reflecting the final implications of the MF. The revised draft ER-PD template will be made available to CFPs and REDD+ countries that have shown interest in the CF by January 15th, 2013. Written feedback will be expected by February 15th, 2013. The ER-PD template will then be available for use by REDD+ Countries by CF9.

Approval of the Methodological Framework

The FMT presented the draft Methodological Framework (MF) text as advanced in the Working Group meeting, which took place prior to CF8. The CFPs discussed the final wording and respective implications of the MF in detail.

The CFPs adopted [Resolution CFM/8/2013/1](#) approving the [Methodological Framework](#).

Follow up action:

The chair noted that when the feasibility of the MF is assessed (after a number of ER-PINs have been received and reviewed by the CF), the following issues should be considered (amongst others):

1. Implications and any necessary action for ER Programs of the Carbon Fund when a country submits a FREL/FRL to the UNFCCC, undergoes a technical assessment, and is posted to the information hub of the UNFCCC, in particular when these FREL/FRL are different from the RL used for the Carbon Fund.
2. Implications of other new guidance from the UNFCCC, as well as guidance arising from COP19¹.
3. ER Programs updating their risk assessment for leakage over the ERPA timeframe.
4. That the MF may need to be revised following lessons learned through its application.

Update on development of ER Programs and implications for portfolio management

The FMT presented an [update](#) on the development of ER Programs and example timelines when countries would meet key milestones from ER-PIN to ERPA. In this context, the FMT highlighted issues related to the expected timelines and made the following suggestions to accelerate the process from ER-PIN to ERPA as follows:

- Switching the sequence of Carbon Fund and Participants Committee meetings to avoid delays that may be created due to sequencing of decision-making in the PC and the CF.
- Making greater use of virtual decision making processes. This is on the agenda for discussion at PC16.

CFPs further confirmed to maintain the current schedule of three Carbon Fund meetings per year.

CFPs requested clarification on the involvement of the TAP in the review process of ER-PDs. The FMT clarified that the decision to involve the TAP remains at the discretion of the CFPs.

In terms of managing the portfolio, CFPs suggested that the Carbon Fund may choose to sign more Letters of Intent (LOI) than intended ER Programs to ensure that countries develop their programs in a timely fashion, and to build a pipeline in the event that more funds become available.

There was general agreement among CFPs that should additional contributions be made to the Fund, which could finance the piloting of additional ER Programs without impacting existing programs, that the CFPs would expand the portfolio accordingly.

CFPs further agreed that risks will be managed across the portfolio.

Recognizing that CFPs seek 1) to achieve net emission reductions across the portfolio (i.e., the total ER volume purchased under all FCPF CF ERPAs), as measured against average annual historical emissions, and 2) to pilot REDD+ across a diverse set of countries, including countries that have historically experienced low deforestation rates, CFPs noted that they will consider the following principles, among others, when selecting ER Programs

¹ For example, the development of the information hub and meetings of national entities or focal points.

into the portfolio:

a) Consideration will be given to the potential net ERs offered by each ER Program, with a view to ensuring the goal of net emissions reductions across the portfolio, as measured against average annual historical emissions, and recognizing the risks of delivery underperformance; and

(b) No ER Program meeting Criterion 13.2 of the Methodological Framework represents a disproportionately large share of the total ER volume or total financial value of the Carbon Fund portfolio.

CFPs may develop further guidance as additional information becomes available and the portfolio develops.

Follow-up action:

The FMT will provide guidance on options for the process of review of ER-PDs, the results of which could guide selection of ER-PDs into the CF portfolio. The FMT will facilitate a series of conference calls with CFPs on this matter.

Next meetings

The ninth Carbon Fund meeting will be held the week of April 7th, 2014. The FMT will advise on the location as soon as possible.

In closing

CFPs took a landmark decision at CF8 with the approval of the Methodological Framework, which will guide the design and implementation of large-scale Emission Reductions Programs in the Carbon Fund. Leading up to the decision was a process of intense discussion with several reiterations of the framework that spanned four Carbon Fund meetings, several Working Group meetings and three Design Forums. The resulting framework provides a global standard for REDD+ transactions at scale and the early experiences that will be gained from applying it could feed into the development of a REDD+ system under the UNFCCC.

Over the coming months, countries will focus on preparing ER-PINs for presentation at the next meeting of Carbon Fund Participants in April 2014. At the next meeting, CFPs are expected to take important decisions that will likely shape the portfolio of the Carbon Fund. I look forward to seeing a set of ER-PINs that will provide for a diverse and innovative Carbon Fund portfolio.

The Carbon Fund of the FCPF was set up to pioneer performance-based payments systems for ERs generated from REDD+ activities, and we are now ready to open the Carbon Fund to implementation of programs on the ground. However, a few important issues still remain that we need to make further progress on in the coming months, such as the pricing approach, and I hope we can continue building on the momentum created with the “Warsaw Framework for REDD+ Action” adopted at COP19.

If you have any questions of concerns, please do not hesitate to contact me [peter.graham@NRCan-RNCan.gc.ca] or the FCPF at fcpfsecretariat@worldbank.org.

Sincerely,
Peter Graham,
Canada