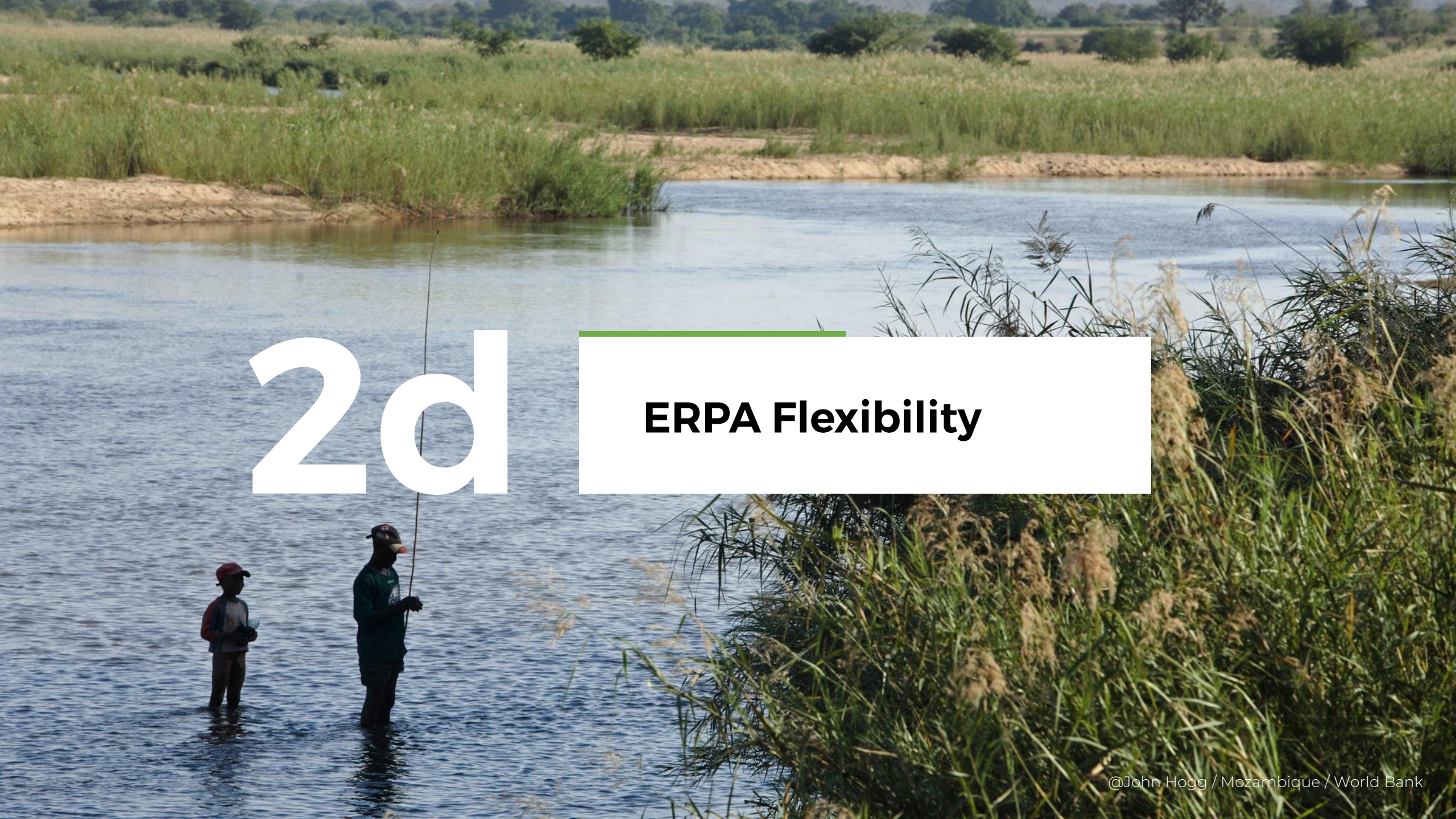


A photograph of a river with two people standing in the water, surrounded by lush green vegetation and reeds. The scene is set in a natural, rural environment with a sandy bank and dense foliage in the background.

2d

ERPA Flexibility

Background

- Several REDD+ Countries have expressed interest in options to access markets and increase the amount of finance mobilized to sustain their ER Programs and increase benefits to communities.
- An initial proposal for additional ERPA flexibility, limited to a few countries and low volumes, was shared in February 2024. This proposal was not approved by CFPs.
- A revised and extended proposal was proposed prior to the 28th Carbon Fund Meeting.
- At CF28, CFPs were generally supportive of the proposed change in the Carbon Fund's portfolio management strategy to allow for additional ERPA flexibility.
- However, no consensus was achieved, due to **lack of agreement on how demand-side integrity should be addressed.**

Background

- CFPs agreed to **work towards a solution to the demand-side integrity issue** urgently and no later than CF29.
- If a consensus is not reached, CFPs in either tranche may discuss options on alternative paths to allow for ERPA flexibility, taking into account implications for the FCPF as a whole.
- Since CF28, FMT has met with CFPs to understand positions and seek consensus.
- An updated proposal was shared with CFPs on 4 December reflecting, in FMTs view, the different positions and interests.
- A new revised proposal with minor revisions was shared ahead of CF29.

Justification for ERPA flexibility

- Additional flexibility would enable countries that have the option to generate Excess ERs in the short term from 6 to 12 countries → equal opportunities to pilot markets
- Additional flexibility could enable up to 60 million ERs to be 'released' from ERPAs and potentially be made available to carbon markets.
- This volume is equivalent to +\$300m in Contract ER payments at \$5/ton, but at projected market prices of \$6-15 per unit, could represent a significant additional finance mobilization, potentially tripling the amount of finance mobilized.
- Additional finance mobilization would result in:
 - Increased benefits flowing to stakeholders (including Indigenous Peoples and Local Communities)
 - Expansion and sustainability of mitigation action on the ground, and support for climate action
 - Long-term sustainability of ER Programs by being able to tap into carbon markets

Example of benefits of ERPA flexibility



Home

Date Issued	Program ID	Program Name	Sovereign Program Developer	Crediting Program and Standard	Standard Version	Vintage
12/3/2024 11:57:22 PM	ART126	Costa Rica FCPF REDD+ Emission Reductions Program	Fondo Nacional de Financiamiento Forestal (FONAFIFO)	FCPF - Carbon Fund Methodological Framework	Version 1.0	2021

- CFPs agreed to allow Costa Rica for the release of 100,000 FCPF ERs in the second Reporting Period so that it could pilot carbon markets
- Costa Rica entered into a sales agreement with Emergent for the transaction of 100,000 FCPF ERs
- The buyer meets the LEAF Coalition's buyer criteria
- The payment will be shared in accordance with the FCPF-approved Benefit Sharing Plan
- Such transaction enabled Costa Rica to mobilize significant additional carbon finance from the private sector
- This additional finance will provide additional resources for Costa Rica's Payment for Environmental Services (PES) system.

Change in strategy

ERPA flexibility would mean a change in the FCPF-portfolio management strategy:

Maximizing ERPA Portfolio delivery

- Pay for 144 million Contract ERs
- Compensate under-delivery in one country by paying for over-delivery in another
- Use any remaining funds, beyond \$721.3M portfolio, to pay for Additional ERs



Maximizing climate finance for REDD+ countries

- Ensure countries deliver ERs
- Maximize finance mobilized by countries by leveraging carbon markets
- Ensure integrity in benefit sharing and support high-integrity markets

Proposal of ERPA flexibility

Eligibility

- Received at least one payment
- Readiness for carbon markets transactions

Retained ER volume

- Negotiated retained ER volume included in ERPA
- All remaining ERs transferred as Contract ERs
- ERPA volume would not be revised 'a-priori'

Put option

- Country would have the right, not the obligation, to sell Retained ER Volume to FCPF

Benefit sharing

- The country is required by the (amended) ERPA to adhere to the FCPF-approved BSP for the Retained ER Volume

Demand-side integrity

- Country public commitment to make good-faith efforts to follow demand-side integrity good practices
- Country to developed Questionnaire in their decision-making for transactions

Demand-side integrity

- **Country commitment to high-integrity markets:**
 - The ERPA amendment(s) will include 1) a commitment from the country that it supports high-integrity carbon markets and commit to act in good faith in its efforts to apply good practices on demand-side integrity when monetizing the Retained ER Volume
 - The FMT has developed a draft guidance note* that provides information and materials on such good practices, e.g., VCMI, and IFC Deal Acceptance Criteria (DAC)
- **Questionnaire as a tool for countries:**
 - The country is required by the (amended) ERPA(s) to submit a filled-out Questionnaire regarding demand-side integrity practices.
 - Such Questionnaire will be used as a tool for countries to assess the integrity of potential 3rd party buyers.
 - The country is required to take into account the information received through the Questionnaire in its final decision whether or not to proceed with the 3rd party sale.
 - If the country decides to proceed with the 3rd party sale it shall explain to the FMT in writing how the 3rd party sale meets good practices on demand-side integrity.
 - The FMT has developed a questionnaire based on the draft guidance note.
- **Support to countries:** The WB will support countries in their efforts to meet these reporting requirements through workshops and technical assistance.

**A guidance note is not a requirement and it is clarified that it does not represent CFP's or the WB's position*

Options for CFP consideration

Option & Description	Pros	Cons	BSP	Demand-side integrity
Option 1. Status quo (case-by-case requests) There would be no change in the portfolio management strategy. CFPs would consider requests for ERPA flexibility on a case-by-case basis (e.g., Costa Rica).	Lower demand for ERPA flexibility so: - Fewer disruptions - Guaranteed payment for delivery of verified ERs	More barriers to ERPA flexibility: - Fewer countries piloting carbon markets - Less additional finance mobilized - Impact on long-term sustainability of ER Programs	i) Contracted ERs: BSP applies ii) Retained ERs: Country confirms use of BSP for revenues from monetization.	i) Contracted ERs: No issue for Contracted ERs ii) Retained ERs: CFP approval of buyer on a case-by-case basis
Option 2. ERPA Flexibility Change in the strategy to manage the FCPF CF portfolio. Change from maximizing portfolio delivery, to maximize climate finance mobilized by countries, while respecting environmental integrity.	Fewer barriers for countries to mobilize additional climate finance for ER Programs and stakeholders: - More countries can pilot access to carbon markets early on. - FCPF CF can support country access to markets. ‘Exit strategy’ for ER Programs beyond the FCPF CF - Newly uncommitted funds could be used to support additional ER Programs	- ERPA amendment could cause disruption in countries - Reputational risk linked to monetization of FCPF ERs in markets	BSP applies in all cases	PE publicly commits to high-integrity markets and to make good faith efforts to follow good practices with regard to demand-side integrity. A Questionnaire is required to be filled out for every 3rd party buyer and used in country decision making

Decision

- **FMT is requesting CFPs to support a change in the portfolio management strategy** by considering country requests for additional ERPA flexibility as outlined in the FMT Note
- The FMT is not requesting any country-specific action or ERPA amendment; any such action will continue requiring CFP approval following non-objection or double 2/3 majority vote (Sec. 12.4(b) of Charter)
- Upon this approval, FMT would explore country-specific ERPA flexibility options and propose to CFPs amendments on a country-by-country basis.
- Approval of a change in the strategy will require a general and unanimous support (not tranche-specific) by all CFPs that will be recorded in the Chair Summary.



Thank you!

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Any questions?

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Process of ERPA Flexibility

ERPA amendment

1. Program Entity requests FMT to be granted ERPA Flexibility.
2. The Bank, as Trustee, and PE agree on the Retained ER Volume and negotiate the ERPA amendment(s).
3. The ERPA amendment(s) will include a commitment from the country that it supports high-integrity carbon markets and commit to act in good faith in its efforts to apply good practices on demand-side integrity
4. FMT shares the proposed ERPA amendment(s) with CFPs for no-objection.
5. Upon no-objection, the Bank and Program Entity sign the ERPA amendment(s).

Implementation

6. Once the PE has identified one or more buyers, it will use the Questionnaire as a tool to assess the integrity of potential 3rd party buyers. The PE will consider the responses in its decision and report back to the FMT.
7. Sold Retained ER Volume (FCPF ERs) is issued and cancelled in CATS, then re-issued in a third-party registry for their final transaction*.
8. The PE implements the FCPF-approved BSP with regard to the proceeds of the 3rd party sale and reports on this implementation to the Bank.
9. FMT periodically presents at FCPF CF meeting the results of the Questionnaires received from PE, together with any justification given by PE to proceed to sell to a 3rd party buyer.

Closing

10. Upon the conclusion of the Verification of the last Reporting Period, the Contract Volume may be revised to account for the delivery of the Retained ER Volume
11. The uncommitted funds resulting from such adjustment may be used to pay for more Additional ERs from other ER Programs, or can be used for additional programming under other trust funds such as SCALE.

**FCPF ERs that are issued for Article 6 purposes will include a Letter of Assurance and Authorization (LOAA) attached and will be labelled as ITMOs. Such label will be replicated by the third-party transaction registries per existing cooperation agreement.*



Coffee Break

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