

Forest Carbon Partnership Facility (FCPF)

Enhancing Country Access to Finance

May 2024

This FMT note presents and analyses requests from several FCPF participating countries and presents a bundled funding allocation of up to US\$5.85 million to address them for CFP consideration/approval.

Background

The FCPF Carbon Fund (CF) was designed to pilot the implementation of REDD+ programs, via results-based-payments, to achieve net emission reductions across the portfolio, and to pilot REDD+ across a diverse set of countries, including countries that have historically experienced low deforestation rates. With all participating countries now having submitted at least one monitoring report, and almost half concluding a full cycle resulting in results-based payments, they have gained a breadth of valuable experiences. While some experiences have proved challenging, others reveal opportunities that could result in a broadening or deepening of ER generating activities, or identification of possibilities to add value to generated ERs.

In implementing Emission Reductions Programs, many countries are undertaking considerable efforts to achieve climate impact and are ensuring that the communities that contribute to this outcome also benefit, while also generating significant non-carbon benefits such as social benefits to communities or other environmental benefits (e.g., biodiversity). These efforts are resulting in the generation of emission reductions paid for by the FCPF but also “Excess ERs” that could be further monetized with third-party buyers if deemed appropriate.

With many REDD+ Countries entering a new stage of piloting results-based climate finance, REDD+ countries have identified two areas for support to enhance their ability to mobilize finance to ensure the sustainability of their ER Programs and the outcomes generated: a) Carbon market access via the monetization of Excess ERs; and b) Recognition of non-carbon benefits generated by ER Programs.

This FMT Note includes a proposal to support REDD+ Countries in these two areas via technical assistance to support monetization of Excess ERs and the piloting of a Non-Carbon Development Outcome certification system to enhance the recognition of non-carbon benefits.

Country Excess ER Monetization Support

With all FCPF CF countries having completed at least one monitoring report, four are expecting to be issued with Excess ERs by the FCPF in 2024 (with one, Viet Nam, already having been issued Excess ERs) and two others are expecting to be issued Excess ERs in 2025. However, these REDD+ Countries are grappling with questions of how to best use their Excess ERs, and in case they decide to access carbon markets, of how to deal with the steps towards monetization. Several have expressed their interest in exploring monetization, but struggle with the process of doing so. Based on discussions with REDD+ Countries, the WB has identified five steps to be taken to monetize ERs, depicted in figure 1 below.

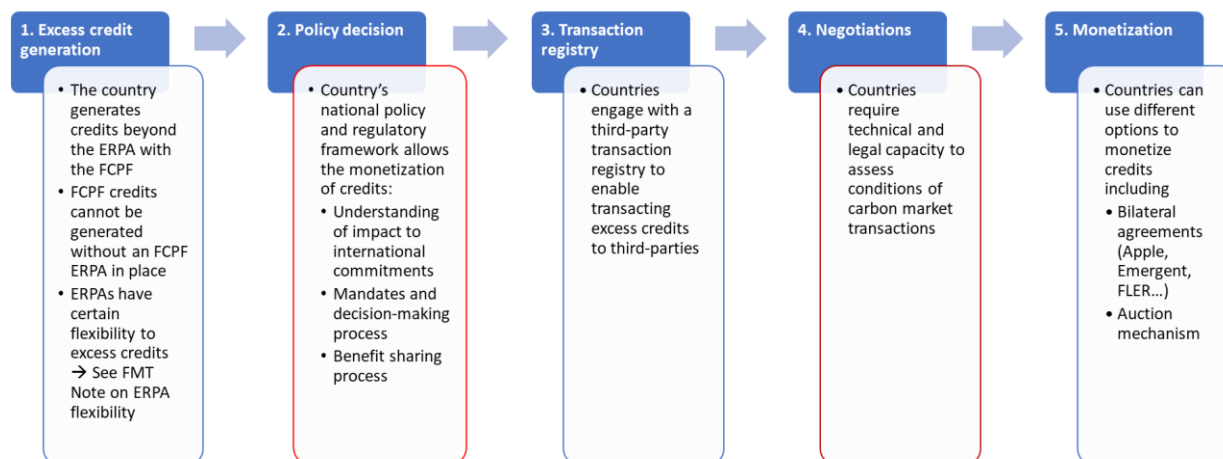


Figure 1. Necessary steps for the monetization of FCPF Excess ERs

While the FCPF is taking action on most of these steps¹ there are two steps that would require additional and tailored support for countries:

- **Step 2:** This step concerns a policy-decision regarding the use of Excess ERs, which depends on the countries' policy and regulatory frameworks, which include the laws and regulations, administrative processes, and policies needed to monetize a country's Excess ERs. Unclear national legal and institutional framework for monetization in carbon markets and the lack of understanding of impact of monetization on country's climate strategy (and NDC commitment) is hindering or delaying countries' decision-making. The WB is proposing to address these issues by providing tailored and targeted technical assistance that seeks to: a) analyze the specific countries' needs and gaps; and b) provide advice in establishing/enhancing regulations, policies, and governance structures for trading within the country's broader climate strategy.
- **Step 4:** This step concerns providing legal and technical advice to the countries to develop and negotiate the terms of contract with third-party buyers, who usually have stronger legal and technical capacity to execute a deal. The World Bank is currently exploring avenues for Step 4, which consists of providing transaction support to host countries to execute deals. To avoid potential conflicts of interest, the World Bank, as a party to the ERPA and the issuer of ERs, would not be involved in any third-party transaction but could provide funds to an intermediary organization that would then provide direct and independent support to countries as and when requested.

¹ Step 1 is covered by the routine reporting, validation/verification, and issuing of ERs under the current ERPAs. The FMT is proposing additional flexibility to allow countries to generate more Excess ERs that could potentially be available to markets. Step 3 is covered through the issuance of ERs in the World Bank's Carbon Assets Tracking System (CATS), and the existing cooperation agreement with the Verra Registry and ART Registry, both of which are operational. While Step 5 has yet to be operationalized, FCPF has established a pathway to execute deals through an auction and is supporting discussions with potential third-party buyers and intermediaries (e.g., Emergent). In addition, the Bank is exploring options through IFC and other Bank departments to provide additional robust support.

As indicated in the FMT Note on ERPA Flexibility, the WB would strive to provide the necessary capacity to countries on demand-side integrity principles and the importance for their decision-making and negotiations. Moreover, the WB will ensure that the FCPF CF demand-side integrity principles, if agreed, are met and communicated with different counterparts.

To conduct this work, the **FMT requests CFPs for the approval of up to US\$5.4 million. The investment income generated this fiscal year will be sufficient to cover this cost.**

Activity	Indicative Budget (USD)
1. Step 2: Analysis and advice to support country decision-making (6 countries)	1,800,000
2. Step 4: Support to negotiations (6 countries)	3,600,000
TOTAL	5,400,000

Non-Carbon Development Outcome certification

The FCPF Methodological Framework includes requirements for countries to identify priority non-carbon benefits and report information on the generation or enhancement of such priority Non-Carbon Benefits. At the time of defining these requirements there was a discussion on whether a premium price could be paid for the generation of non-carbon benefits, as proposed by REDD+ Countries. At the time, the difficulties of defining methodologies that could be used across ER Programs and the difficulty of defining modalities for paying for these outcomes, resulted in a decision to include this as a 'flexible' reporting requirement. Still, REDD+ Countries are requesting some kind of recognition and incentive mechanism for these development outcomes generated by ER Programs, and that performance is not exclusively linked to emission reductions. For example, an ER Program could have lower GHG performance than expected, but still be extremely successful from a social outcome standpoint. Moreover, this is relevant for Excess ER monetization since development outcomes are extremely important for third-party buyers purchasing decisions including pricing.

In this light, the FMT intends to develop and test an approach to recognize, reward, and incentivize efforts that prioritize enabling environment and inclusion and generate additional (non-carbon) benefits. Based on prior endorsement by Carbon Fund Participants, FMT has developed a methodology on Non-Carbon Development certification which is undergoing a review by an internal World Bank working group that is refining the methodology, including its indicators.

Upon endorsement by the working group, FMT intends to pilot the methodology in emission reductions programs in two Carbon Fund countries. The most likely options are either Ghana or Côte d'Ivoire, and Costa Rica or Guatemala. The piloting would take place between July 2024 and July 2025 and consists of collection of information on indicators, submission preparation for certification, validation and verification of the methodology by a third-party auditor, establishment of certification protocol, and cost-benefit analysis of the implementation of a non-carbon development certification. Furthermore, if allowed by the timing of regular verification of reported emission reductions, FMT endeavors to include a pilot of non-carbon development certification in the regular verification of one of the pilot countries' monitoring report cycle. Following the pilot, consultations are expected to take place between July –

October 2025 which could result in a protocol that could be used under the FCPF CF or other funds going forward.

To conduct this work, the **FMT requests CFPs for the approval of up to US\$450,000. The investment income generated this fiscal year will be sufficient to cover this cost.**

Activity	Indicative Budget (USD)
1. Indicator Information Collection	250,000
2. Submission Preparation for Social Certification	75,000
3. Third-Party Auditor Validation and Verification	60,000
4. Establishing Social Certification Protocol	55,000
5. Cost benefit certification analysis	10,000
TOTAL	450,000

FMT Proposal for consideration by the CFPs

The FMT recommends the approval of a budget of up to US\$5.85 million to address these challenges and opportunities identified by REDD+ Countries.