



FOREST CARBON PARTNERSHIP FACILITY

THE FCPF CARBON FUND: PIONEERING PERFORMANCE- BASED PAYMENTS FOR REDD+

The Carbon Fund of the Forest Carbon Partnership Facility will pilot payments for verified emission reductions from REDD+ programs. The goal is to provide incentives to reduce emissions while protecting forests, conserving biodiversity, and enhancing the livelihoods of forest-dependent indigenous peoples and local communities.

The Forest Carbon Partnership Facility (FCPF), operational since 2008, is a global partnership focused on demonstrating REDD+ results and informing future REDD+ policy development, including under the United Nations Framework Convention on Climate Change (UNFCCC), through:

- Capacity building, and financial and technical assistance to REDD+ countries (Readiness Fund)
- Piloting performance-based payments (Carbon Fund)
- Testing ways to enhance livelihoods and biodiversity
- Disseminating knowledge and lessons learned

The FCPF has grown to 36 developing countries and 18 financial contributors (including developed countries, private sector participants and one NGO) and has 6 categories of observers, including indigenous peoples and civil society. It has raised about US\$450 million for its two funds, the Readiness Fund and the Carbon Fund.

To date, the FCPF has been focused primarily on activities under the Readiness Fund. However, in May 2011 the Carbon Fund became fully operational. Its target size is US\$350 million, which will be used to pilot performance-based incentive systems in a relatively small number of countries.

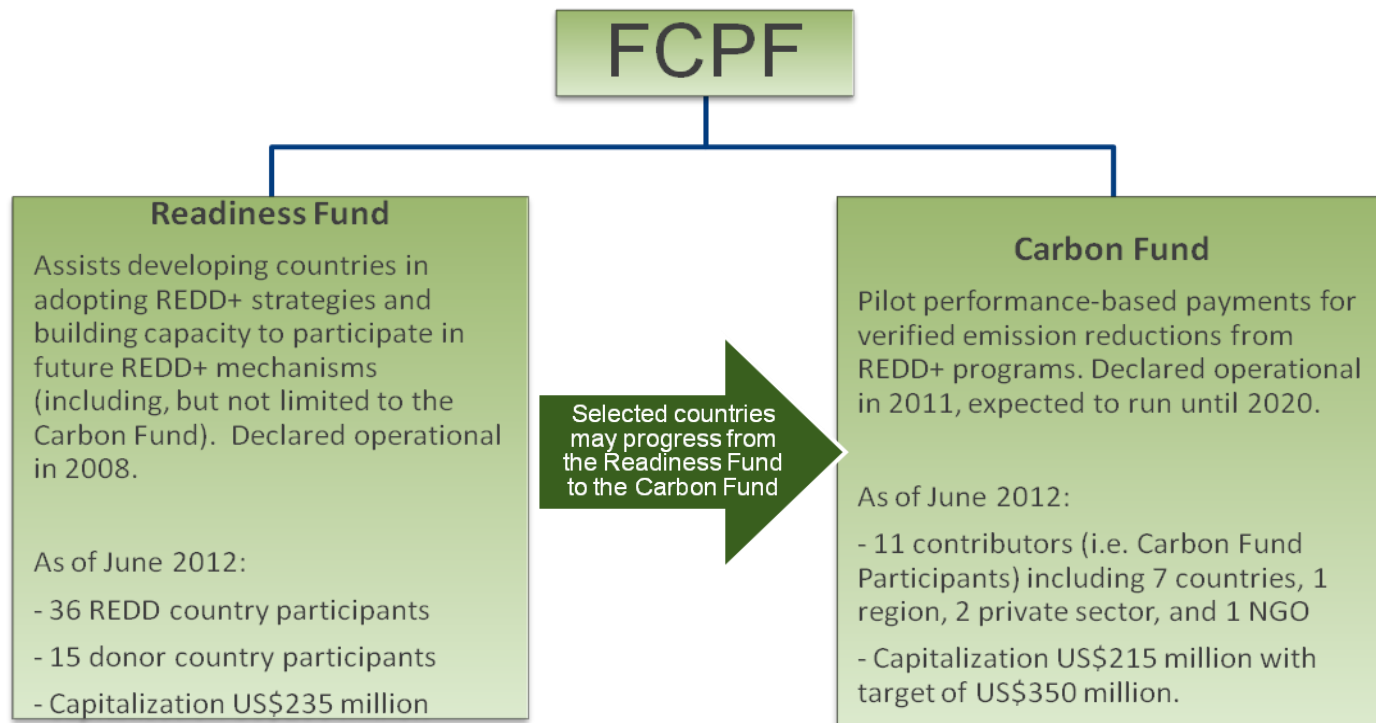
Results-based Finance for REDD+ Can Support Climate Change Mitigation

Slowing, halting and reversing deforestation is recognized as critical to reducing global greenhouse gas emissions. In addition, protection of the world's remaining forests can contribute to sustainable development, provide benefits to forest-dependent indigenous peoples and local communities, protect important ecosystems, and conserve critical habitats for endangered species.

The UNFCCC has recognized the importance of reducing emissions from deforestation and forest degradation, conservation, the sustainable management of forests and the enhancement of forest carbon stocks (REDD+) in the fight against dangerous climate change. At COP-16 in Cancun, countries agreed to a phased approach to REDD+ that includes REDD+ strategy development, capacity building, implementation of policies and measures, and **results-based demonstration activities**, which will evolve into fully measured, reported, and verified emission reductions.

In 2011, at COP-17 in Durban, countries agreed to consider the development of market-based approaches to support results-based REDD+ actions. The Carbon Fund seeks to provide learning, through demonstration activities, to inform the development of such policies.

The FCPF is comprised of two separate funding mechanisms:



A Public-Private Partnership

The Carbon Fund seeks to create effective models for governments, the private sector, and communities to work together. The private sector is critical, not only to scale up funding for REDD+ but also to provide management capacity and experience with innovative financial instruments.

Carbon Fund Participants (as of June 2012):

| | | | |
|------------------------|------------------------|---------------|-------------|
| Australia | BP Technology Ventures | Canada | CDC Climat |
| European Commission | Germany | Norway | Switzerland |
| The Nature Conservancy | United Kingdom | United States | |

What Will the Carbon Fund Accomplish?

Demonstrating large-scale performance based payments. To date, most REDD+ transactions have occurred in the voluntary market and rely on a project-based approach. The Carbon Fund will focus on large-scale programs at the administrative jurisdiction or national level. As such, it will require a mix of policies and investments, integration with national development strategies, use of innovative financial structures, and involvement of multi-stakeholder approaches.

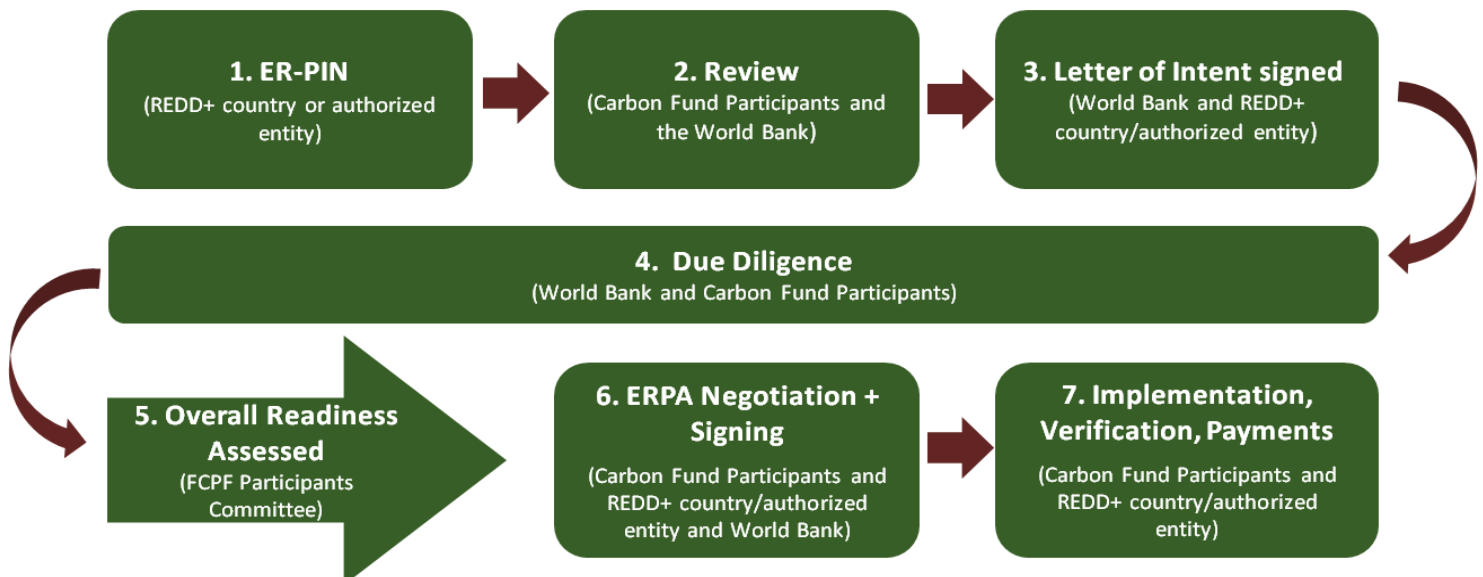
Providing early learning opportunities through piloting a variety of approaches. Approximately five programs will be chosen with sufficient diversity to generate learning value. They may involve, for example, policy and legal reforms in land management, improvements in land tenure, establishment of parks and forest reserves, or intensification of agriculture, among others.

Channeling incentive payments where they are needed. The Carbon Fund will test benefit sharing mechanisms that incentivize stakeholders most critical to protecting forests. In some cases, forest-dependent indigenous peoples or the private sector are intended to receive revenues from the sale of emission reductions. In all cases, national governments will be central to the commitment to reduce emissions.



How does the Carbon Fund work?

1. Countries that have participated in the Readiness Mechanism and made significant progress towards REDD+ readiness may voluntarily apply, or authorize an entity within their country to apply, to the Carbon Fund through submitting an Emission Reductions Program Idea Note (ER-PIN), using the template provided by the FCPF.
2. Carbon Fund Participants and the World Bank review ER-PINs, taking into account Technical Advisory Panel input and other relevant documents. Carbon Fund Participants then select the Emission Reductions Programs (ER Programs) which will be included into the Carbon Fund portfolio.
3. If selected, the World Bank and the REDD+ country sign a Letter of Intent.
4. The World Bank and Carbon Fund Participants perform their respective due diligence, including overall program appraisal, and assessment of social and environmental safeguards, reference level, monitoring system, and sub-national arrangements (if relevant) and provide advice on ways to improve the quality of the ER Program. The REDD+ country or entity makes improvements to the ER Program design, then submits a final version.
5. Meanwhile, the FCPF Participants Committee (a governing body of the FCPF) assesses the REDD+ country's progress towards REDD+ readiness.
6. Once an ER Program is approved by the Carbon Fund Participants, the World Bank drafts an Emission Reductions Payment Agreement (ERPA), to be agreed by the REDD+ country and Carbon Fund Participants, and signed by the REDD+ country entity and the World Bank.
7. The ER Program is then implemented, results are reported, and when verifiable emission reductions are generated and independently verified, payments are made to the REDD+ country, and emission reductions are transferred to the Carbon Fund Participants.



Carbon Fund Frequently Asked Questions:



Can countries who are not members of the FCPF apply to the Carbon Fund?

No, currently the Carbon Fund is limited to those countries who have signed a Readiness grant under the FCPF Readiness Fund. However, all countries will be able to benefit from lessons learned through the experiences of the Carbon Fund.

Will the Carbon Fund be consistent with decisions of the UNFCCC?

Yes, the Carbon Fund aims to be consistent with emerging compliance standards and, as international negotiations proceed, will strive to align with emerging UNFCCC guidance, rules and modalities. It does not intend to pre-empt international negotiations on REDD+, but seeks to provide 'real life' practical insights and knowledge generated from piloting implementation and carbon finance mechanisms and, through this, to inform ongoing negotiations.

Are there special requirements for subnational programs?

Yes, ER Programs will need to be approved by the appropriate national REDD+ authority and linked to the national REDD+ strategy and a national monitoring system. Subnational level programs, including subnational baselines used for measuring performance, are expected to be consistent with, or informed by, the approach being used to establish a national REDD+ framework.

Will the Carbon Fund consider non-carbon benefits?

Yes, the Carbon Fund seeks to maximize environmental and social benefits. The choice of ER Programs to finance will take into account the quality of emission reductions generated by each ER Program, including non-carbon benefits.

Will the Carbon Fund apply social and environmental safeguards?

Yes, ER Programs under the Carbon Fund must comply with applicable World Bank operational policies and procedures, including safeguard policies.

Who will benefit from Carbon Fund payments?

ER Programs will build on systems and strategies established in the Readiness phase, which require transparent, full and effective participation of all stakeholders with an emphasis on respect for the knowledge and rights of forest-dependent indigenous peoples. How revenues from carbon payments are to be shared is a question for each REDD+ country to address in the context of its work on Readiness.



Does the Carbon Fund provide financing upfront?

The Carbon Fund is mostly set up to provide payments based on performance, i.e., after emission reductions have been verified. Some upfront payment may be possible subject to conditions still to be established. In general, Carbon Fund payments will be complementary to financing from other sources, e.g., the government's own budget, World Bank financing, loans or grants from the Forest Investment Program, the Global Environment Facility, bilateral donors, or the private sector.

What happens if emission reductions are not verified?

The Carbon Fund will make payments for verified emission reductions. If the verification reveals that all or part of the monitored and reported emission reductions have not taken place, then there is no payment to be made for non-verified emission reductions. If verification is not required under the ERPA for a given time period, but the understanding is that emission reductions (as monitored and reported) have been achieved, the ERPA may (pending subsequent verification) still allow a payment to be made.

Does the Carbon Fund operate as a fund or is it developing a market?

The Carbon Fund's goal is to contribute to creating a strong framework for any future payment system for REDD+, including markets, by demonstrating and testing performance-based incentive systems, creating high-quality emission reductions, and providing learning opportunities from testing a variety of ER Programs.

For additional information, please visit the Carbon Fund online at
www.forestcarbonpartnership.org/fcp/node/277 or
email the Facility Management Team at fcpfsecretariat@worldbank.org

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