Forest Carbon Partnership Facility (FCPF)
Carbon Fund

Payment for Emission Reductions Generated Before the Signing of Emission Reductions Payment Agreements

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This note proposes an approach to payment for Emission Reductions generated from FCPF programs before the signing of ERPAs for approval by the Carbon Fund Participants.

I. Background

1. During recent negotiations of potential Emission Reductions Payment Agreements (ERPAs), some REDD+ countries requested the Carbon Fund of the Forest Carbon Partnership Facility (FCPF) to allow for the accounting of and payment for emission reductions (ERs) generated under the ER Program before ERPA signature. These REDD+ countries argued that at the time of ERPA negotiations, many of the ER Program Measures, including REDD+ related policies and investments, had already been under implementation. They also argued that the payment for ERs generated under the ER Program before ERPA signature would not only be a recognition of, but also additional revenue to enhance the sustainability of countries' efforts on the ER Program.
2. The issue of paying for ERs generated before ERPA signature has been raised with the Carbon Fund Participants (CFPs) at a number of Carbon Fund Meetings. The main considerations of the CFPs are that: (1) such ERs should be generated in accordance with the FCPF Methodological Framework, and (2) such ERs would not have been achieved without the ER Program.
3. Neither the FCPF Methodological Framework nor the ERPA General Conditions explicitly prohibit the payment for ERs generated before ERPA signature. The timing of when the first Reporting Period would start was deliberately left to ERPA negotiations, with the understanding that the default would be to make payments for ERs generated starting as of ERPA signature.
4. This note proposes an approach to payment for ERs generated from FCPF programs before the signing of ERPAs for approval by the Carbon Fund Participants and describes the conditions related to such payments. **<u>The payment for ERs generated from FCPF programs before the signing of ERPAs is NOT a default; any such payments are part of and subject to ERPA negotiations and subject to World Bank due diligence.</u>**

II. Conditions related to potential payments for ERs generated before ERPA signature

1. The ERs generated before ERPA signature are required to meet the requirements of the FCPF Methodological Framework. Potential payments for such ERs are subject to the General Conditions Applicable to ERPAs for FCPF ER Programs. In order to receive potential payments under an ERPA for

ERs generated before ERPA signature (retroactive ERs) an ER Program will have to meet the following five conditions:

2. ***Condition 1: Selection into the Carbon Fund portfolio.*** The first Reporting Period under an ERPA can start only after i) the ER Program has been selected into the Carbon Fund portfolio unconditionally or, in the case of provisional selection, after all conditions for selection have been met, and ii) the implementation of at least one of the ER Program Measures has started. This condition would ensure that the payments are made only for (retroactive) ERs that would not have been achieved without the ER Program.

3. ***Condition 2: Relevant safeguard measures for the ER Program Measures are in place.*** The first Reporting Period under an ERPA cannot start before the time when the Program Entity has started to implement ER Program Measures in a manner consistent with the Environmental and Social Management Framework (ESMF) for the ER Program. Specifically, before signing ERPAs, the World Bank approves the ESMF for the ER Program. The Program Entity would then provide evidence, in form and substance satisfactory to the Trustee, to demonstrate that the ER Program Measures generating the (retroactive) ERs were implemented in a manner consistent with the approved ESMF. This condition clarifies that (retroactive) ERs can only be paid for if the ER Program Measures meet the World Bank social and environmental safeguards. All ERs generated prior to ERPA signature are expected to comply with World Bank social and environmental safeguards, in accordance with the FCPF Methodological Framework and the General Conditions Applicable to ERPAs for FCPF ER Programs.

4. ***Condition 3: Forest Monitoring System (FMS) operational.*** The end of the first Reporting Period can only be at a time after the FMS for the ER Program is operational. This condition would allow for (retroactive) ERs to be measured, monitored, and reported in accordance with Section 3.4 of the FCPF Methodological Framework.

5. ***Condition 4: Benefit Sharing.*** All payments for (retroactive) ERs are subject to the final Benefit Sharing Plan (BSP) for the ER Program, as approved by the World Bank. This condition clarifies that payments for ERs generated before ERPA signature also have to be shared in accordance with the approved BSP.

6. ***Condition 5: Title to ERs.*** All payments for (retroactive) ERs are subject to the Program Entity's demonstrated ability to transfer title to such ERs. This condition clarifies that payments for (retroactive) ERs cannot be made before the Program Entity has demonstrated its ability to transfer title to such ERs.