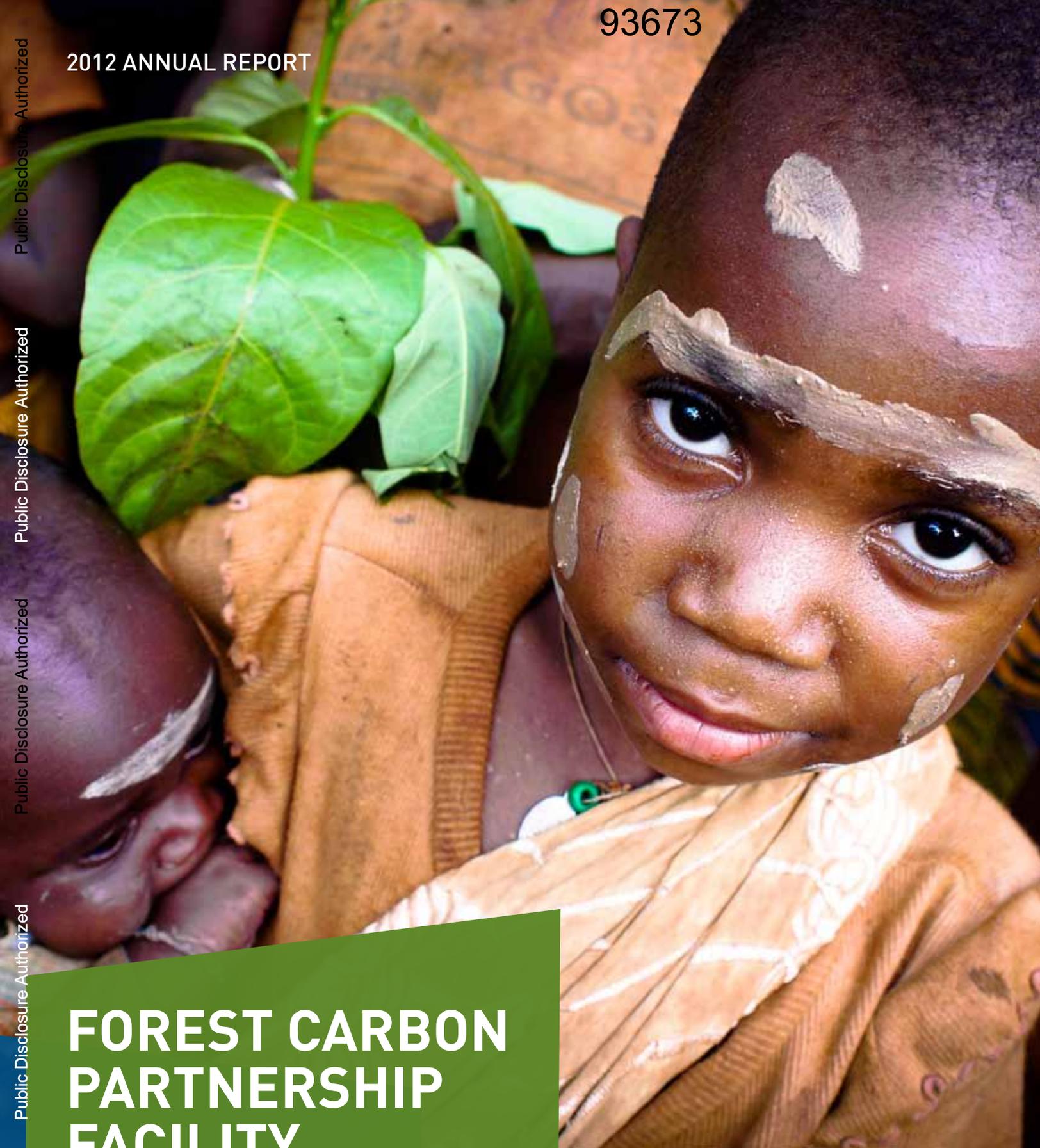


Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized



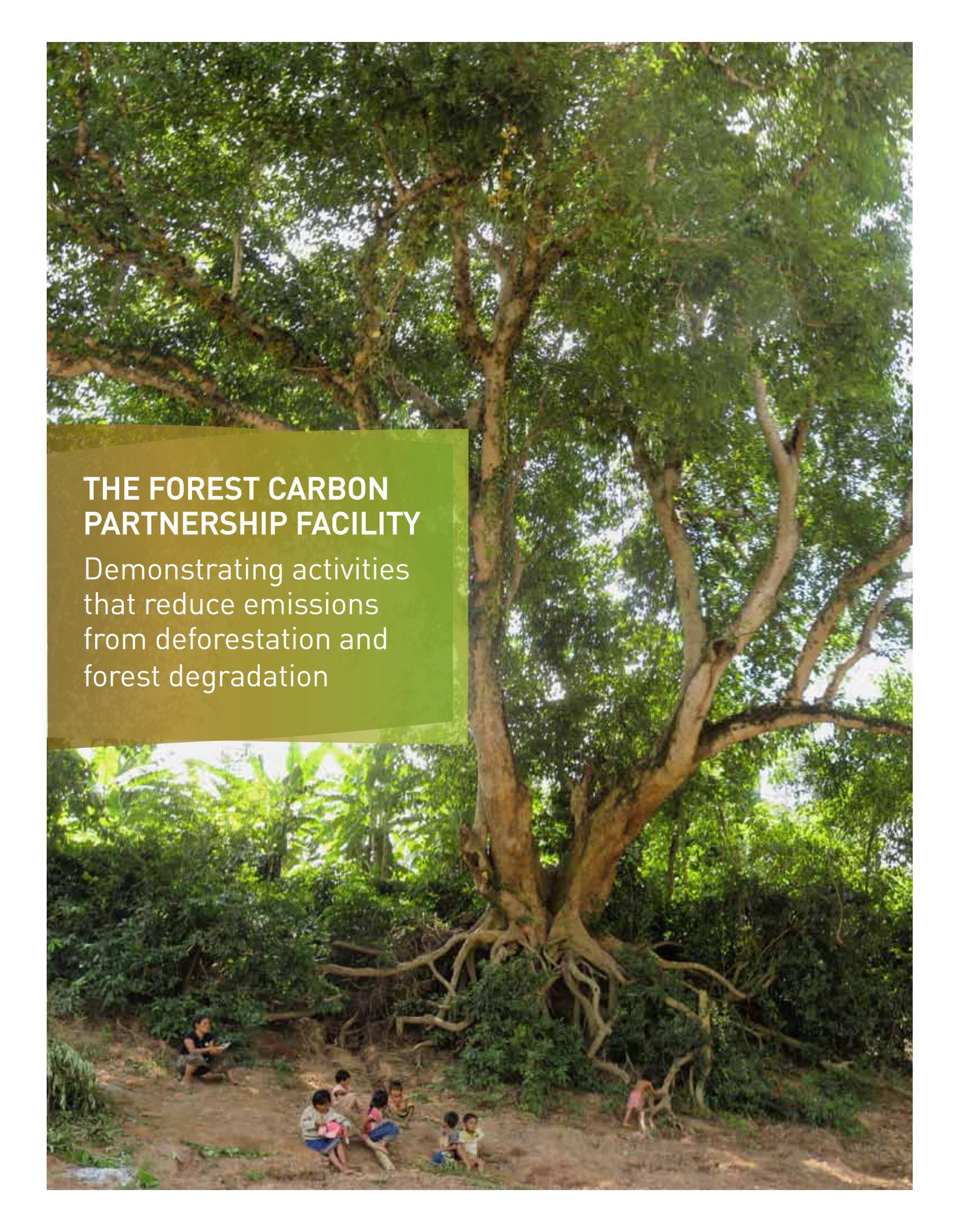
# FOREST CARBON PARTNERSHIP FACILITY

<b>ACRONYMS</b>	<b>5</b>
<b>FOREWORD</b>	<b>7</b>
<b>EXECUTIVE SUMMARY</b>	<b>9</b>
<b>1. INTRODUCTION</b>	<b>11</b>
1.1. Overview of the FCPF	11
1.2. UNFCCC's REDD+ phases and FCPF's step-wise approach	12
<b>2. ADVANCING THE STEP-WISE APPROACH TO REDD+ READINESS</b>	<b>17</b>
2.1. REDD+ Readiness Progress – FY12 in Review	17
2.1.1. Steadily Expanding R-PP Formulation	17
2.1.2. Increasing Focus on Implementation of REDD+ Readiness Activities	18
2.1.3. Piloting Midterm Reporting	18
2.1.4. Defining REDD+ Readiness	19
2.2. Implementing REDD+ Readiness Activities – FY12 Highlights	21
2.2.1. Scaling up Consultations and Stakeholder Engagement	21
2.2.2. Assessing Land Use and Drivers of Deforestation for REDD+ Strategy Development	23
2.2.3. Strengthening the REDD+ Implementation Framework	25
2.2.4. Early Lessons from Implementing the SESA Process	26
2.2.5. Advancing the Understanding on Setting Reference Levels	27
2.2.6. Exploring the Link between Community Monitoring and National MRV	29
<b>3. SOWING THE SEEDS FOR EARLY PERFORMANCE-BASED PAYMENTS</b>	<b>33</b>
3.1. Carbon Fund: Building the Framework for Operation	33
3.2. Opening the Carbon Fund Pipeline: ER-PIN Selection and Processing Guidelines	34
3.3. Developing the Methodology Framework and Pricing Approach	36

# CONTENTS



<b>4. ADVANCING THE REDD+ AGENDA TOGETHER</b>	<b>39</b>
4.1. Expanding to Multiple Delivery Partners	39
4.2. Scaling up the Dialogue with Indigenous Peoples	39
4.3. Opening the Readiness Fund to New Countries	40
4.4. Coordinating with other REDD+ Initiatives	41
4.4.1. UN-REDD Programme	41
4.4.2. Forest Investment Program	43
4.4.3. BioCarbon Fund	43
4.5. Harvesting and Sharing Knowledge	43
4.5.1. Lessons for REDD+ from Payment for Environmental Services	43
4.5.2. Issues and Options for National REDD+ Registries	43
4.5.3. South-South Dialogue on Benefit Sharing	44
4.5.4. South-South Knowledge Exchange on Community Forestry	45
4.6. The REDD+ Partnership	45
<b>5. FY12 FINANCIAL REPORT OF THE FACILITY</b>	<b>47</b>
5.1. Budget Approval Process	47
5.2. The Readiness Fund	48
5.2.1. Funding Sources	48
5.2.2. Funding Uses	49
5.2.3. End of Year Account Balance	50
5.2.4. Readiness Fund Disbursements	51
5.2.5. Financial Commitments over the Longer Term	51
5.3. The Carbon Fund	53
5.3.1. Funding Sources	53
5.3.2. Funding Uses	53
5.3.3. End of Year Account Balance	55
5.3.4. Financial Commitments over the Longer Term	55
<b>6. CONCLUSIONS AND OUTLOOK</b>	<b>57</b>

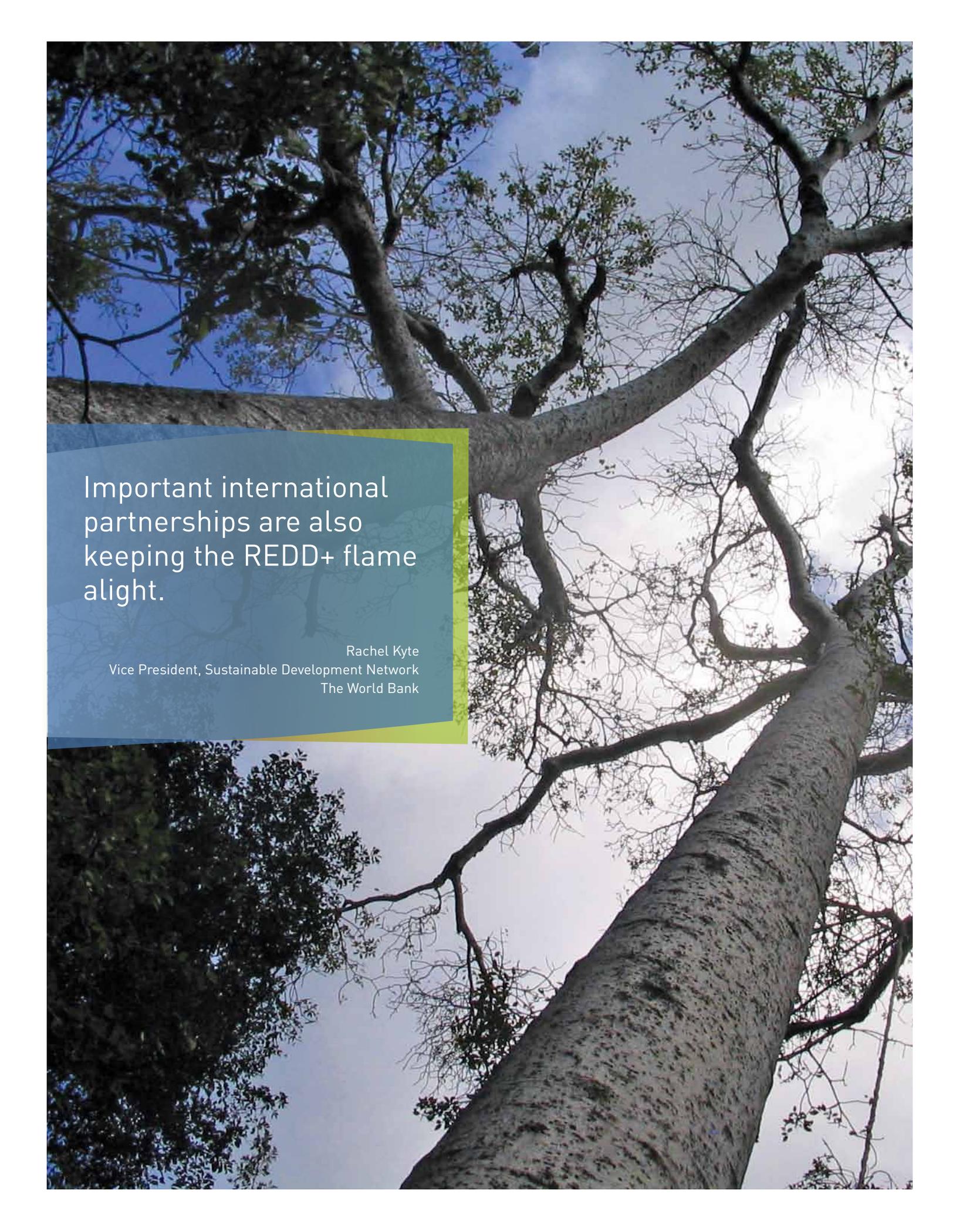


## THE FOREST CARBON PARTNERSHIP FACILITY

Demonstrating activities that reduce emissions from deforestation and forest degradation

# Acronyms

CF	Carbon Fund
COP	Conference of the Parties (to the UNFCCC)
CSO	Civil Society Organization
DRC	Democratic Republic of Congo
ER	Emission Reductions
ERPs	Emission Reductions Programs
ERPA	Emission Reductions Purchase Agreement
ER-PIN	Emission Reductions Program Idea Note
FAO	Food and Agriculture Organization
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
FMT	Facility Management Team
FY	Fiscal Year (World Bank fiscal year, July 1 through June 30)
IDB	Inter-American Development Bank
IP	Indigenous People
KfW	<i>Kreditanstalt fuer Wiederaufbau</i> (German Development Bank)
Lao PDR	Lao People's Democratic Republic
MRV	Measurement, Reporting, and Verification
NGO	Non-Governmental Organization
PA	Participants Assembly
PC	Participants Committee
PES	Payments for Ecosystems Services
REDD	Reducing Emissions from Deforestation and Forest Degradation
REDD+	REDD <i>plus</i> conservation of forest carbon stocks, sustainable management of forests, and enhancement of forest carbon stocks
REL	Reference Emission Level
RL	reference level
R-PP	Readiness Preparation Proposal
SBSTA	Subsidiary Body for Scientific and Technological Advice (under UNFCCC)
SESA	Strategic Environmental and Social Assessment
TAP	Technical Advisory Panel
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UN-REDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries



Important international  
partnerships are also  
keeping the REDD+ flame  
alight.

Rachel Kyte  
Vice President, Sustainable Development Network  
The World Bank

# Foreword



It has been a challenging year for carbon finance. The prospect of a new international climate agreement remains elusive and carbon market prices have plummeted.

REDD+ has not escaped the turbulence. Before this year, Parties to the UNFCCC had made real progress on defining the outline of a future regime for reducing emissions from deforestation and forest degradation, and REDD+ was hailed as the beacon of hope in the negotiations.

Unfortunately, at this time, it's hard to escape the feeling that we have lost some steam since the excitement of the UN climate gatherings in Cancun and Durban. Meanwhile, forests continue to be lost and efforts to get the world on a greener, low-carbon growth path need to increase in scale and pace to meet the challenges ahead.

On the up side, new remote-sensing data on global emissions from deforestation suggest lower levels than previously thought, which may be due in part to the actions of countries to contain forest loss. Also, there are still strongly committed public donors and new prospects are emerging for including REDD+ in national and sub-national cap-and-trade schemes in Australia and California. Also, major private companies are committing to eliminate deforestation in their production chains.

Important international partnerships are also keeping the REDD+ flame alight. The UN-REDD Programme brings the UN agencies together so they can deliver as one and build country capacity and generate pilots. The Forest Investment Program focuses on investments in a small number of key countries to produce economic transformation and generate global knowledge. And, the Forest Carbon Partnership Facility (FCPF) itself, the first global partnership on REDD+ to be designed in the lead-up to the Bali conference, has become a central knowledge and financial platform to design and measure REDD+ readiness and pilot performance-based payments at scale.

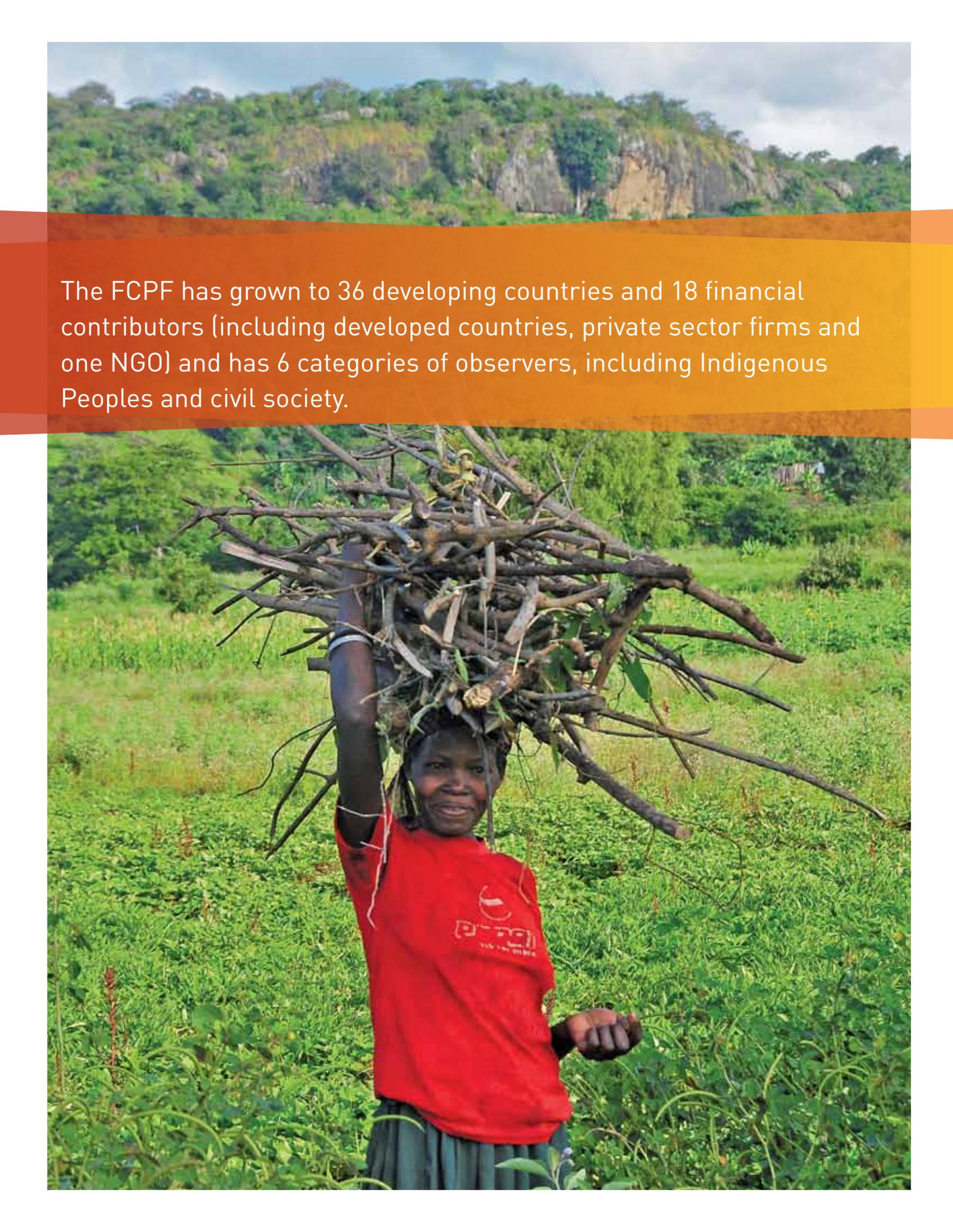
With a climate regime and financial support mechanisms from the UNFCCC still in the planning stage, these initiatives

are more important than ever. Today, countries are embarking on no-regrets options and their economic and governance reforms to reduce deforestation and degradation are simply too important to walk away from. We cannot afford to lose momentum. The potential to deliver a triple win of increased food security, climate resilience, and mitigation are too great to let go.

Despite the difficulties, FCPF has made good progress this year. The Facility is making great strides in supporting smart packages of policy reform to curb forest loss. It is also fostering inclusive governance at the partnership level through the active participation of Indigenous Peoples and civil society from the north and south, and at the country level with the representation of these stakeholders in national management arrangements for REDD+. Together, we are demonstrating a commitment to international cooperation, broad stakeholder engagement, and public-private partnership.

My hope is that this FCPF approach will make our groundbreaking work on defining and measuring readiness and on preparing for performance-based payments all the more relevant and sustainable. The World Bank is a proud member of the partnership and we will keep doing our best, together with the Participants, Observers, and Delivery Partners, to move it forward in the years to come.

Rachel Kyte  
Vice President, Sustainable Development Network  
The World Bank

A woman in a red t-shirt and dark skirt is carrying a large, heavy bundle of sticks and branches on her head. She is standing in a lush green field with a rocky, forested hillside in the background. The t-shirt has a logo and text that is partially visible, including the word "PETA" and "SINCE 1987".

The FCPF has grown to 36 developing countries and 18 financial contributors (including developed countries, private sector firms and one NGO) and has 6 categories of observers, including Indigenous Peoples and civil society.



# Executive Summary

In its fourth year of implementation, the Forest Carbon Partnership Facility (FCPF) focused on putting in place the operational framework for the transition from the Readiness Fund to the Carbon Fund. The Facility made significant progress in defining REDD+ Readiness as well as performance-based payments, building on both policy guidance from the UNFCCC and practical experience from countries implementing REDD+ Readiness activities on the ground. FY 2012 also marked a year of increased efforts to reach out to stakeholders, in particular forest-dependent Indigenous Peoples and local communities. The Facility broadened the number of Delivery Partners, which allows the FCPF to better extend technical assistance services to REDD+ Country Participants.

FY12 was an important year for the FCPF as implementation on the ground gained significant momentum and commitments to and disbursements from the FCPF Readiness Fund accelerated. With more and more REDD Country Participants progressing from Readiness Preparation Proposal (R-PP) formulation to R-PP implementation, the attention of the FCPF shifted to measuring progress toward REDD+ Readiness. Guidance on the process and format for midterm reporting was issued and the Democratic Republic of Congo (DRC) is the first REDD Country Participant closing in on this important milestone. The DRC now intends to request additional REDD+ Readiness funding, which may be granted to countries that can demonstrate significant progress made at this stage. Substantial progress was made on the design of the Readiness Package (R-Package), a document to be generated by a REDD+ country well advanced in its Readiness preparation. Progress was also registered in defining the nuts and bolts for performance-based payments under the Carbon Fund. The rules of procedure were agreed upon and a working group prepared guiding principles for the methodological framework and pricing approach. As the Carbon Fund prepares to select the first Emission Reductions Programs in FY13, the corresponding template was developed and the selection criteria for building a pipeline of program ideas were agreed upon.

The word “partnership” in the FCPF conveys the idea of a multi-stakeholder forum, and the FCPF has indeed brought together both grassroots and policy-level audiences. An important milestone for stakeholder engagement was an unprecedented global dialogue bringing together Indigenous Peoples representatives from 28 countries in Guna Yala, Panama. Reaffirming its commitment to meaningfully engage Indigenous Peoples, the FCPF pledged to support a series of regional follow-up meetings. A Pan-African dialogue was held in FY12 and similar regional meetings will be held in Latin America and Asia at the beginning of FY13. The FCPF also scaled up funding for the Capacity Building Program

for Indigenous Peoples, Local Communities, and Southern Civil Society Organizations to \$5.5 million over four years and increased the amount of grant funding to REDD Country Participants to enhance their capacity for dispute resolution.

Four years into operations, the FCPF has made great strides in building the capacity of its many participants. While the early years of the Facility focused on developing the necessary process and procedural foundations, the emphasis for FY12 was squarely on support to countries. Over the course of the last year a number of major knowledge pieces were developed on such topics as lessons from payments for environmental services for REDD+, benefit sharing, national REDD+ registries, the design of reference levels, community participation in monitoring systems, the role of community forestry under REDD+, and the analysis of drivers that underpin deforestation dynamics in the Congo Basin. In addition, effort was stepped up to disseminate knowledge and encourage feedback from the broader REDD+ community through South-South-exchanges and communications. To enhance country presence and multiply the impact of FCPF funds on the ground, the FCPF coordinated closely with partners, including the UN-REDD Programme, the Forest Investment Program (FIP), and bilateral and multilateral agencies.

Moving forward into FY13, the FCPF will place special attention on the emerging pipeline for the Carbon Fund while continuing to support the Readiness process for REDD Country Participants. The FCPF will further boost its role in capturing the experiences of REDD Country Participants more systematically, disseminating knowledge, and facilitating South-South knowledge exchanges with the aim of accelerating learning across countries. Once the Transfer Agreements are in place with the United Nations Development Programme (UNDP) and the Inter-American Development Bank (IDB) as new Delivery Partners, the FCPF will also be able to extend technical assistance services to a number of participating countries, thus helping them to make step-wise progress toward REDD+ Readiness.

The goal of FCPF is to provide incentives to reduce emissions while protecting forests, conserving biodiversity, and enhancing the livelihoods of forest-dependent peoples and local communities.



# Introduction

## 1.1. Overview of the FCPF

The Forest Carbon Partnership Facility is a global partnership of governments, businesses, civil society, and Indigenous Peoples focused on reducing emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks in developing countries (activities commonly referred to as REDD+).

### The Facility pursues four strategic objectives:

- > To assist countries in their REDD+ efforts by providing them with financial and technical assistance in building their capacity to benefit from possible future systems of positive incentives for REDD+.
- > To pilot a performance-based payment system for REDD+ activities, with a view to ensuring equitable benefit sharing and promoting future large-scale positive incentives for REDD+.
- > Within the approach to REDD+, to test ways to sustain or enhance livelihoods of local communities and to conserve biodiversity.
- > To disseminate broadly the knowledge gained in the development of the Facility and the implementation of Readiness Preparation Proposals (R-PPs) and Emission Reductions Programs (ERPs).

The FCPF has two separate but complementary funding mechanisms—the Readiness Fund and the Carbon Fund—to achieve its strategic objectives (see Figure 1). Together the two funds have raised \$457 million.

The **FCPF Readiness Fund** supports participating countries as they prepare for REDD+ by developing the necessary policies

and systems, including adopting national strategies; developing reference emission levels (RELs); designing measurement, reporting, and verification (MRV) systems; and setting up REDD+ national management arrangements (including proper environmental and social safeguards).

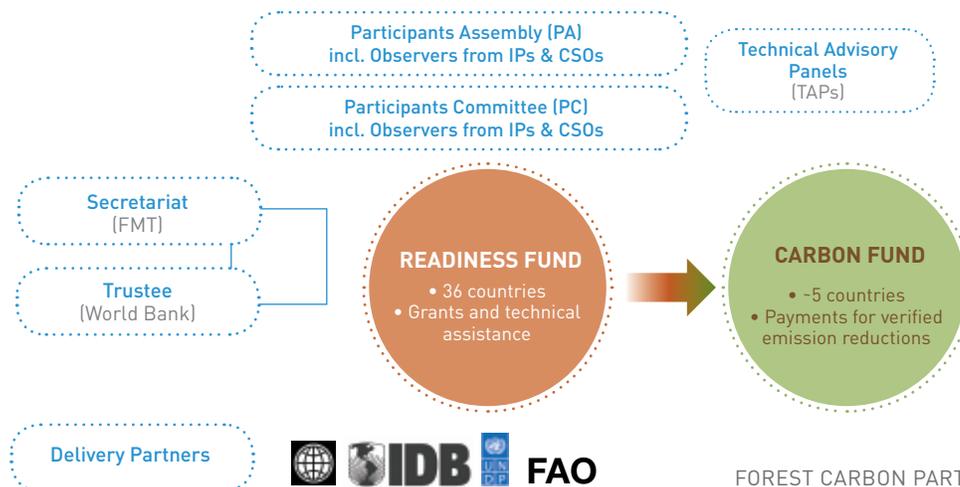
The **FCPF Carbon Fund** is piloting performance-based payments for verified emission reductions from REDD+ programs in countries that have made considerable progress toward REDD+ Readiness. The goal is to provide incentives to reduce emissions while protecting forests, conserving biodiversity, and enhancing the livelihoods of forest-dependent peoples and local communities.

### BOX 1: FCPF FUNDS AND PARTICIPANTS

The Readiness Fund and the Carbon Fund are both underpinned by a multi-donor fund of governments and non-governmental entities, including private companies that make a minimum financial contribution of \$5 million.

- Contributors to the Readiness Fund are known as Donor Participants.
- Contributors to the Carbon Fund are known as Carbon Fund Participants.
- Developing countries participating in the FCPF (both funds) are known as REDD Country Participants.

Figure 1: Governance Structure of the FCPF





**The FCPF has become a central piece in the new REDD+ institutional landscape.** It has created a standard framework for REDD+ Readiness centered on the robust assessment of country-owned proposals, fostered domestic thinking about and action on REDD+, and incentivized greater cooperation among national and international entities. It has developed a unique inclusive governance approach reflective of its public-private partnership character. Governments and private participants share equally in governance responsibilities, and observers have an active role in what is effectively a consensus-based decision-making model. Many participants feel this approach has helped foster a spirit of cooperation and trust in the broader REDD+ community and helped negotiations on REDD+ proceed faster than many other components of the UN climate talks.

**Thirty-six forest developing countries (13 in Africa, 15 in Latin America and the Caribbean, and eight in the Asia-Pacific region) have so far been selected to join the FCPF.** The total number of financial contributors has grown to 18 (15 developed country governments, two private sector firms, and one NGO).

**At the core of the FCPF inclusive governance structure is the Participants Assembly and the Participants Committee.** The Participants Assembly, which is composed of all the countries and organizations participating in the FCPF, meets annually and elects the Participants Committee (PC). The Participants Committee comprises 14 forest (REDD+) countries and 14 financial contributors, along with six categories of observers representing Indigenous Peoples, civil society,

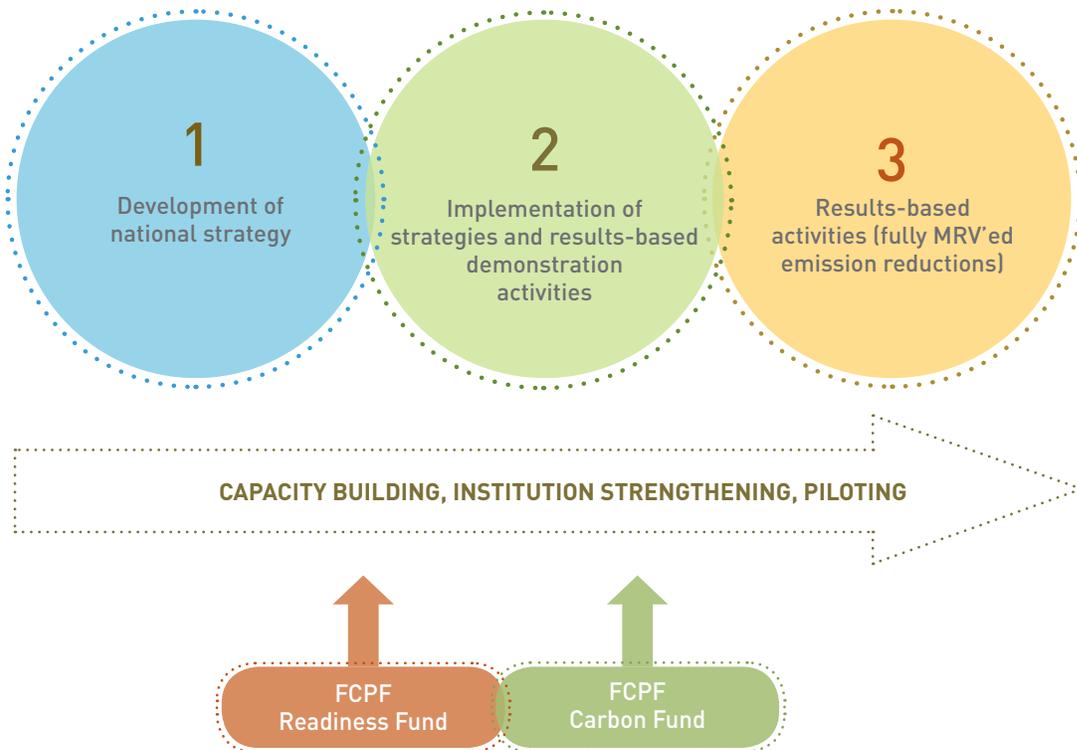
international organizations, the UN-REDD Programme, the UNFCCC Secretariat, and the private sector. The PC, which meets about three times a year, is the main decision-making body of the FCPF. It reviews country submissions, decides on grant resource allocations, and approves budgets. The World Bank assumes the functions of Trustee, Facility Management Team, and Delivery Partner. The Inter-American Development Bank and the United Nations Development Programme are also Delivery Partners under the Readiness Fund.

## 1.2. UNFCCC's REDD+ phases and FCPF's step-wise approach

**At the sixteenth session of the Conference of the Parties to the UNFCCC (COP16) in 2010, the UNFCCC outlined a sequence of three broad phases to develop a REDD+ mechanism under the climate convention.** The sequence starts with basic capacity building and development of strategies and action plans ("Phase 1"), followed by implementation of national strategies and results-based demonstration activities ("Phase 2"), to an eventual system with fully measured, reported and verified emission reductions ("Phase 3"). Compared to the phased timeline identified by the UNFCCC, the FCPF Readiness Fund relates to Phase 1 as identified in the UNFCCC's Cancun Agreement and the FCPF Carbon Fund relates to Phase 2 (see Figure 2).



Figure 2: The Different Phases of REDD+





At COP16, the UNFCCC also defined the four core elements of REDD+. Countries are encouraged to develop such elements, taking into account national circumstances and respective capacities:

- A REDD+ strategy or action plan.
- A forest reference emission level.<sup>1</sup>
- A forest monitoring system with robust, transparent monitoring and reporting of activities.
- A system for providing information on how social safeguards will be addressed and respected.<sup>2</sup>

The design of REDD+ Readiness Preparation Proposals incorporates and aligns with these four core elements. As a demonstration initiative, the FCPF provides practical guidance that helps countries pilot the processes and systems that are being defined under the UNFCCC. Experience gained with support from the FCPF and other programs are having a tangible impact on the international REDD+ landscape and are informing the process under the UNFCCC negotiations. The objective and mandate of the FCPF, however, is not to design the eventual system for UNFCCC's Phase 3.

---

#### BOX 2: OUTCOMES FROM UNFCCC COP17 FOR REDD+

---

The COP17 in Durban, South Africa, in December 2011 had important outcomes for REDD+ with regard to financing, safeguards, and the development of reference levels:

- **With regard to financing**, a decision was made to allow for both public and private financing for REDD+, recognizing that market-based approaches may be developed in the coming years. The recognition of a market-based approach sends a very positive signal to the private sector, which can potentially contribute significant amounts of investment for REDD+ but had been waiting for a sign of commitment and long-term predictability from the UNFCCC.
- **With regard to safeguards**, a decision was made that countries need to provide transparent, consistent information that allows for improvements over time, builds on existing reporting systems, and provides for periodical national communications.
- **A significant decision was made on reference levels**, which are to be developed by individual countries following a bottom-up approach. As per guidance from Durban, Reference Levels ought to be consistent with existing greenhouse gas inventory methods and support a step-wise approach of gradual improvement over time. Countries were invited to submit their proposed reference levels and supporting information to the UNFCCC, which will establish a process for assessing them.

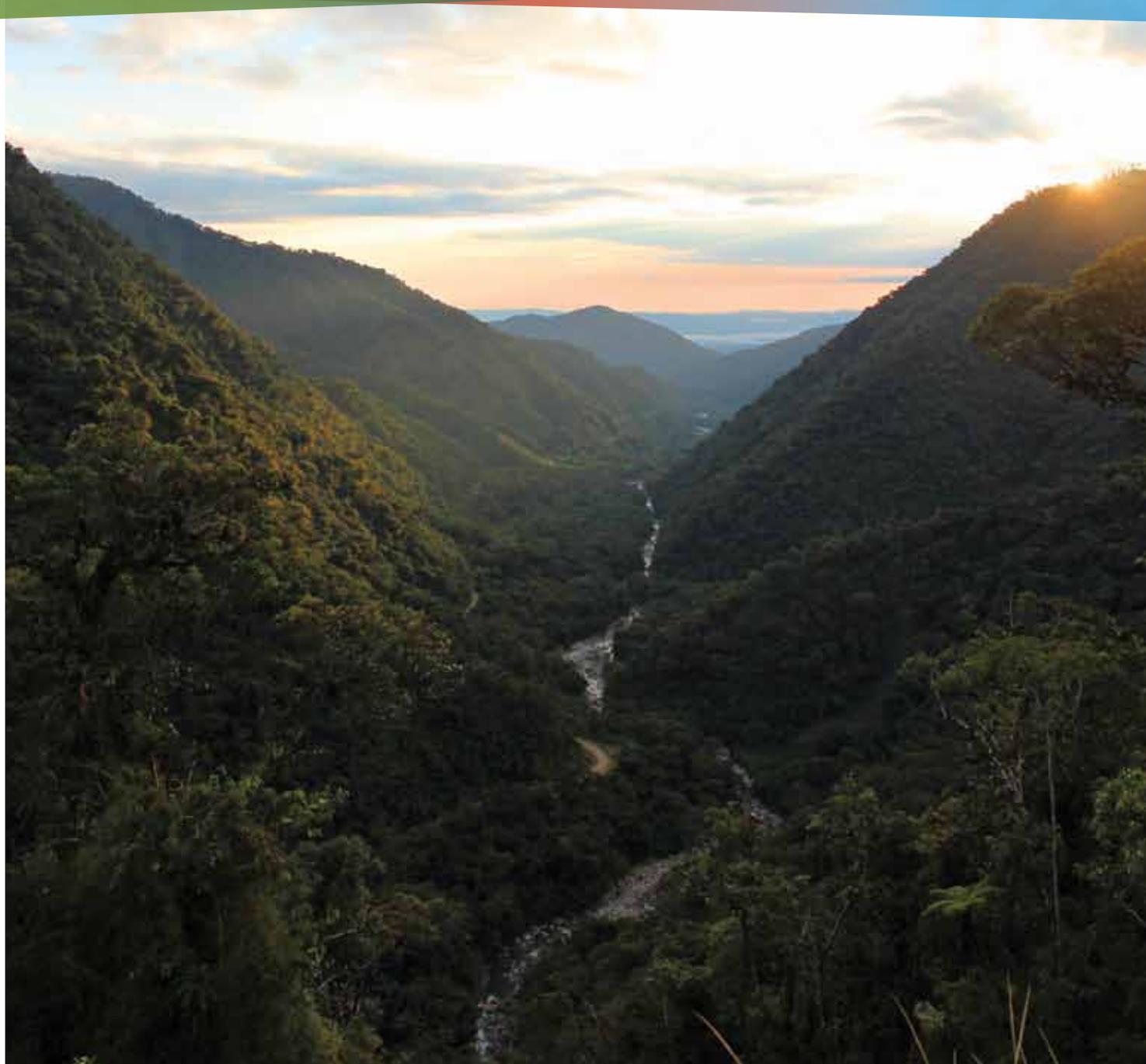
---

<sup>1</sup> A baseline of forest cover and emissions over time.

<sup>2</sup> Occurring throughout the implementation of REDD+ activities to ensure the full and effective participation of relevant stakeholders (notably Indigenous Peoples and local communities).



Such South-South exchanges have steadily increased over the years to form one of the cornerstones of the Facility. Over the course of the last year, the step-wise approach has also proven useful for defining how to measure REDD+ Readiness.



# Advancing the Step-Wise Approach to REDD+ Readiness

After just four years of operation, the FCPF has proven to be a major contributor to global progress under REDD+. The Facility has raised in-country awareness, capacity and technical skills, and know-how around REDD+ issues. The step-wise approach to REDD+ readiness has been key to the FCPF's success. By breaking the REDD+ Readiness process down into a series of steps, the FCPF has aided countries in building REDD+ Strategies that are adjusted to their national circumstances yet still allow for cross-country learning. Such South-South exchanges have steadily increased over the years to form one of the cornerstones of the Facility. Over the course of the last year, the step-wise approach has also proven useful for defining how to measure REDD+ Readiness. This chapter provides a review of the step-wise progress made by REDD Country Participants over the course of FY 2012.

## 2.1. REDD+ Readiness Progress—FY12 in Review

### 2.1.1. Steadily Expanding R-PP Formulation

During FY12 the number of Readiness Preparation Proposal formulation grants expanded to four more countries (El Salvador, Mozambique, Nicaragua, and Thailand<sup>3</sup>). Making immediate use of the funds received, three of the four countries advanced to making an informal or formal R-PP presentation within the same year.

The R-PP is a first major milestone in the step-wise approach to REDD+ Readiness and forms the basis upon which the FCPF Participants Committee allocates grant resources for REDD+ Readiness preparation. It documents a set of actions that a country proposes to implement to achieve the core elements of REDD+ as per the text negotiated in Cancun and based on strategic planning and an accompanying stakeholder consultation.

The overall number of R-PPs presented to the FCPF REDD Country Participants increased steadily in FY12. The PC assessed the R-PPs from the Central African Republic, Colombia, Guatemala, Mozambique, and Nicaragua and allocated funds to support implementation. With these additional five R-PPs, two-thirds of FCPF REDD Country Participants have completed their R-PPs. In addition, El Salvador advanced to informal presentation and is expected to formally submit its R-PP for PC13 in October 2012 in Brazzaville, Republic of Congo.

The Participants Committee and the Technical Advisory Panel (TAP) noted an increase in the quality of the R-PPs that were submitted during FY12. Overall, more recent R-PP submissions reflect a better understanding of the crucial elements of REDD+ Readiness, including the sequencing and necessary funding of activities. Early R-PPs tended to lack a

true cross-sectoral assessment of issues related to REDD+ and thus often remained weak in the analysis of drivers of deforestation and the corresponding early definition of REDD+ strategy options. In contrast, the latest set of R-PPs showed that feedback and guidance from the TAP and the PC have been taken into account during country-level planning, thus leading to noticeable quality improvements in R-PP formulation. As a result, the cross-sectoral impact of economic development outside the forest sector is now better reflected in the overall analysis; by extension, proposed implementation frameworks for REDD+ put greater emphasis on the cross-sectoral coordination effort needed to reduce emissions from deforestation and/or forest degradation and to enhance carbon uptake. Recent R-PPs furthermore demonstrate more realistic estimates of the expected costs of the REDD+ Readiness process by taking into account the cost of broad-based stakeholder engagement and the cost of building technical capacities at the national and local levels. Improvements in overall quality were particularly evident in the recent R-PPs submitted by Latin American countries.

Burkina Faso, which is not an FCPF REDD Country Participant but is a pilot country under the Forest Investment Program (FIP), voluntarily prepared an R-PP to benefit from the constructive feedback and technical guidance that is provided as part of the FCPF's R-PP assessment process. In doing so, Burkina Faso also aligned its national REDD+ Readiness process with the FCPF's step-wise process, thereby presenting a transparent roadmap for its planned REDD+ Readiness activities and committing itself to the quality standards set by the FCPF with regard to REDD+ readiness.

<sup>3</sup> This grant is executed by the World Bank.

### 2.1.2. Increasing Focus on Implementation of REDD+ Readiness Activities

**During FY12 attention shifted from formulation and presentation of country R-PPs to preparation and implementation of Readiness Preparation grant agreements.**

In addition to the Democratic Republic of Congo (DRC), Indonesia, and Nepal, which signed their Readiness Preparation Grants by the end of FY11, new agreements were signed in FY12 with Costa Rica, Ghana, Liberia, and the Republic of Congo. Accordingly, by the end of FY12, seven countries had entered into the REDD+ Readiness preparation stage and are implementing their Readiness Preparation Grants as described in more detail in Section 2.2.1.

**The Facility Management Team, meanwhile, focused efforts on improving the delivery of funds** to address the slow delivery of much-needed financing in past years. Expedited disbursements of Readiness Preparation Grants in FY12 show that efforts are paying off (see Figure 3). To further accelerate the delivery of funds, the PC decided, at its 10<sup>th</sup> meeting in Berlin, Germany, to increase the funds available for REDD+ Readiness preparation. Accordingly, countries can now access up to \$5 million in addition to their initial REDD+ Readiness Preparation Grant (\$3.6 million)—provided they can demonstrate significant progress at the time of the submission of their midterm progress report. Moreover, additional funds of \$200,000 per country have been made available to enhance country capacity for dispute resolution.

**The FCPF has also increased synergies with other forest and natural resources** management operations that can

contribute to REDD+ Readiness objectives. For example, the World Bank, in its role as a Delivery Partner, has focused on identifying activities in its own portfolio of operations that complement the implementation of R-PPs. Efforts to leverage funding complementary to FCPF resources will remain a priority as countries' total funding needs for REDD+ readiness continue to exceed the resources available from the FCPF.

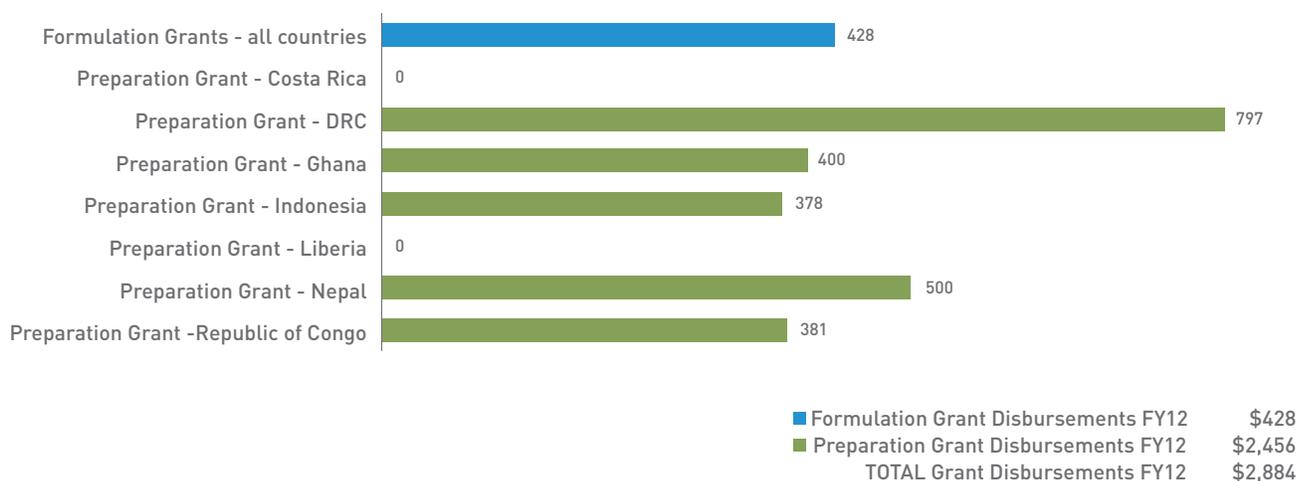
### 2.1.3. Piloting Midterm Reporting

**A midterm report is an important milestone in the step-wise approach to REDD+ readiness.** At midterm, countries report on the progress made in activities funded by the FCPF Readiness Preparation Grant and provide an overview of the overall progress in implementation of the R-PP (as financed by other sources). As described above, the midterm report also provides an important opportunity for countries to receive up to \$5 million in additional funding if significant progress can be demonstrated.

**In FY12, the Democratic Republic of Congo started the process of assessing its midterm progress.** It is expected that the DRC will be the first country to submit its midterm report for review at the 13<sup>th</sup> Participants Committee meeting in October 2012. Initial lessons from the DRC's experience are highlighted in Box 3.

It should be noted that the format of the midterm report may have to be adjusted, in light of the further development of the R-Package, to provide for ongoing reporting on REDD+ Readiness.

Figure 3: Grant Disbursement in FY12 (\$ thousands)



### BOX 3: MIDTERM REVIEW IN THE DEMOCRATIC REPUBLIC OF CONGO

Following a step-wise approach, the DRC has made substantial progress in the REDD+ Readiness phase and is getting ready for the REDD+ Investment phase. The government embarked on a mid-term review of progress made toward REDD+ Readiness and identified priorities to focus on during the remainder of this phase. This review process was supported by an independent review of overall progress on REDD+ Readiness (including the broader set of activities financed by other sources) commissioned by the government. The main recommendations of the independent review include:

- Focusing on creation of a national REDD+ Fund aimed at attracting multi-donor financing and providing for improved long-term planning based on the availability of funds.
- Elevating the leadership of the National REDD+ Committee to a higher level to reinforce cross-sectoral coordination.
- Reassessing the role of the national REDD+ coordination office in the upcoming phases (investment and performance-based payments).
- Continuing the decentralization of REDD+ Coordination to the local level.
- Finalizing a REDD+ Framework Strategy by end of 2012, and aiming for subsequent completion of a full-fledged strategy in the coming years once lessons have been learned from investments.
- Ensuring adequate financing to the Thematic Coordination Groups, to communication activities, and to the Provincial Focal Points.
- Strengthening the rights of communities in forest management.
- Adopting national rules for sharing the benefits from REDD+.

Based on the above recommendations, the DRC prepared a \$5 million request for additional grant funding to finance activities that would allow the country to respond to the recommendations above. This request will be considered by the PC during its 13<sup>th</sup> meeting in Brazzaville.

#### 2.1.4. Defining REDD+ Readiness

**FY12 has been an important year in terms of advancing the definition of REDD+ Readiness.** The policy context under the UNFCCC evolved and the contours of the eventual system have become clearer. With more and more countries progressing with REDD+ Readiness Preparation, countries are gaining practical experience on the ground in translating requirements into action. These developments have also been feeding into the development of the Readiness Package (R-Package).

**The R-Package is a major milestone in the REDD+ Readiness preparation process and comes at the transition from REDD+ Readiness (under the REDD+ Readiness Fund) to**





**REDD+ piloting (under the Carbon Fund).** It thus follows the logical sequence of the step-wise approach that begins with a country's initial Readiness Preparation Idea Note (R-PIN), followed by the drafting of the R-PP (formulation phase) and the implementation of the R-PP (preparation phase). In other words, the R-Package serves as the bridge between Phase 1 and Phase 2 of REDD+ Readiness as defined by the UNFCCC.

**With the development of the R-Package, countries will take stock of the activities implemented during the REDD+ Readiness preparation phase, capturing lessons learned, documenting early results, assessing remaining gaps, and identifying activities for the way forward to transitioning to the implementation of performance-based activities.** Country experience to date with the formulation of R-PPs has helped to better define the elements of the evolving R-Package and to estimate more realistic timelines for finalization of an R-Package.

**The scope of the R-Package is national and encompasses all major Readiness preparation activities—not just those activities financed by the FCPF.** As such, the R-Package captures the important relationships among different Readiness preparation activities and helps to ensure consistency across components.

**While preparation of the R-Package and submission to the PC is voluntary under the Readiness Fund, it becomes mandatory if a country aims to submit an Emissions Reduction Program Document<sup>4</sup> for consideration by the FCPF Carbon Fund.** The preparation of the R-Package is nevertheless a desirable step for any REDD+ country that has advanced in REDD+ Readiness preparation as it serves multiple purposes. It provides a country with the opportunity to demonstrate national commitment to REDD+ and transparency in performing Readiness preparation activities, including assurance to national and international stakeholders that potential social and environmental risks are being mitigated. Moreover, the R-Package is intended to generate valuable feedback and

guidance through a two-step assessment process (i.e., first, through a multi-stakeholder self-assessment at the country level and, second, through an assessment by the Participants Committee with input from a Technical Advisory Panel, a Delivery Partner, and others). This feedback will help countries in their continued Readiness preparation and in piloting of REDD+. With its comprehensive overview of the progress made in REDD+ Readiness, the R-Package is furthermore intended to attract additional funds from external sources for scaling up activities.

**Over the course of FY12, major progress was made in the design of the R-Package.** Starting in October 2011, discussions began with the PC on the content; there were also continuous work streams between subsequent PC meetings and five dedicated video conferences to garner stakeholder feedback. These discussions served to clarify the role of the R-Package, as per the FCPF Charter, and the proposed two-step assessment process (first at the national level and then by the PC).

**The Participants Committee endorsed the purpose and scope of the Readiness Package at PC12 in June 2012.** Some parts of the R-Package, namely the assessment approach, still need to be discussed further among the FCPF stakeholders before REDD Country Participants can agree on the details of the R-Package template. Accordingly, the Facility Management Team (FMT) continued to work on a proposal for the assessment approach by which the maturity of the national Readiness process would be assessed.

The step-wise approach to REDD+ Readiness is represented in Figure 4, which shows the various steps leading

<sup>4</sup> The Emission Reductions Program Document is the key document based on which a country and the Carbon Fund may enter into a contractual agreement (i.e., into an Emission Reductions Payment Agreement). The country's R-Package needs to be endorsed by the PC before the Emission Reductions Program Document is submitted to the Carbon Fund.

to the assessment of the R-Package and the basic relationship between Readiness progress and eligibility for the Carbon Fund.

## 2.2. Implementing REDD+ Readiness Activities— FY12 Highlights

**FY12 provided early implementation experiences from REDD+ Readiness activities advancing at the country level.** Implementation on the ground can be challenging, as each country needs to identify the right sequence of activities that will eventually lead them to REDD+ Readiness while taking into account the relevant country context. With a multitude of national, local, and international actors involved, views on what should be the priorities to be implemented first and foremost can diverge. Early implementation of REDD+ Readiness activities showed that ongoing efforts at broad stakeholder engagement continue to be particularly important in ensuring that REDD+ Readiness implementation receives support and endorsement from national and local stakeholders.

**Organized along the building blocks of REDD+ Readiness, the following section presents highlights from early implementation of REDD+ Readiness activities supported by the FCPF Readiness Fund in FY12.** In addition to country-specific examples of REDD+ preparation activities implemented over the past year, this section describes a number of regional and global learning and knowledge-sharing events that were organized by the FMT during FY12. These learning initiatives enhanced the discourse and exchange among countries and

allowed for the capturing of early lessons from countries that are pioneering REDD+ Readiness preparation. Experiences were transferred to successive countries and have facilitated and accelerated implementation progress. Key topics covered in learning events included stakeholder engagement, community-based MRV, and benefit sharing.

### 2.2.1. Scaling up Consultations and Stakeholder Engagement

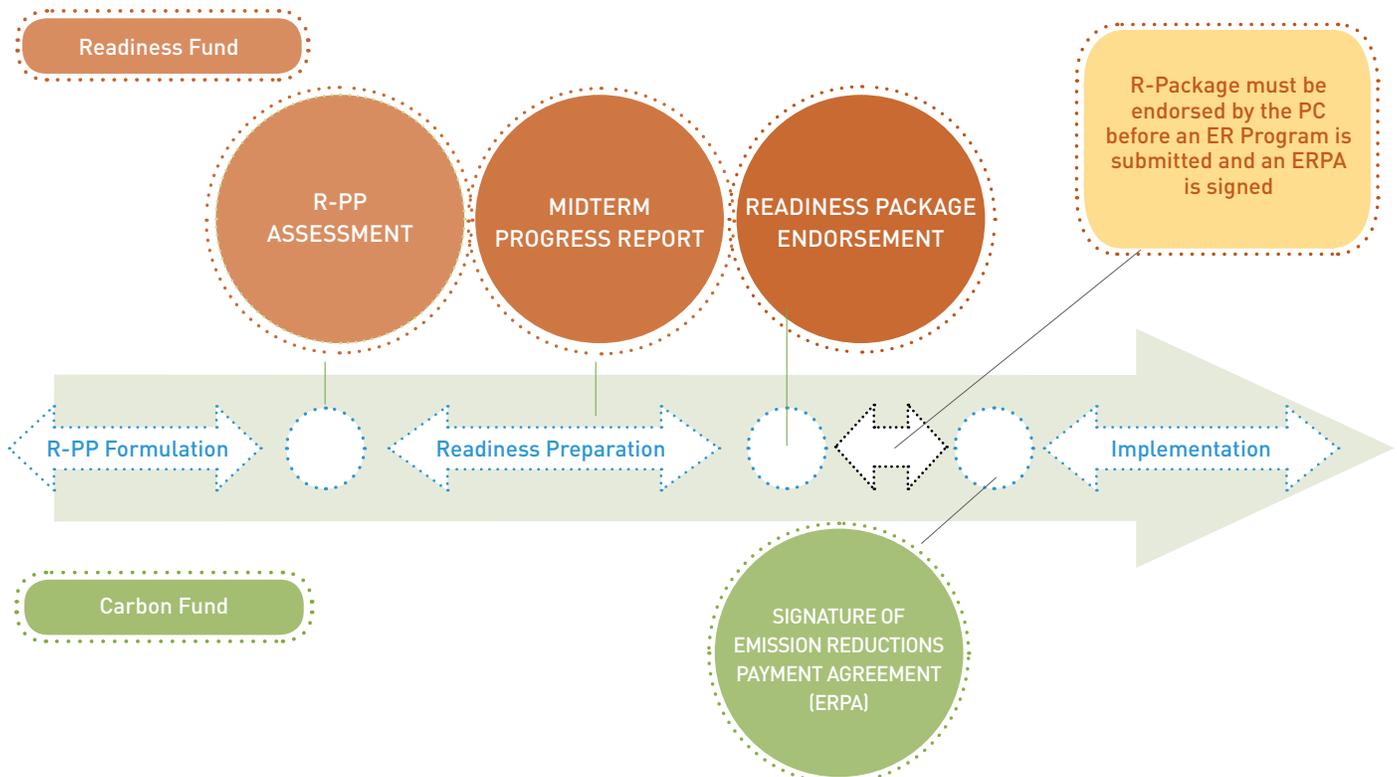
**Consultative processes and timely access to information are important in increasing the ability of stakeholders to meaningfully engage in key REDD+ Readiness activities.** In FY12 a stronger emphasis was placed on stakeholder consultations; this resulted not only in increased awareness but also in heightened trust among different stakeholder groups involved in REDD+.

#### Scaling up Stakeholder Engagement

**FY12 confirmed the importance of a broad-based consultative process.** To ensure community support, it was important that the information and capacity-building needs of local communities were met early on in the REDD+ planning process to enable meaningful participation in debates and to ensure that the concerns and priorities of local communities were taken into account by the relevant planning structures set up for REDD+ in a country.

Experiences from Cameroon and Kenya show that multi-

Figure 4: Milestones of REDD+ Readiness



stakeholder working groups consisting of both government and non-government representatives improved social inclusion and helped to build ownership of the REDD+ Readiness process among key stakeholder groups. The series of consultations carried out at national and local levels in both countries in FY12 substantially boosted the informed engagement of stakeholders in the national REDD+ Readiness process and further helped to grow trust between local stakeholders and the government (see Box 4 for details).

### *Expanding Capacity Building for Indigenous Peoples and Local Communities*

**Forest-dependent Indigenous Peoples, forest dwelling peoples, local communities, and Southern Civil Society Organizations (CSOs) are key partners in REDD+ design and implementation.** The UNFCCC COP16 decision on REDD+ calls for the full and effective participation of Indigenous Peoples and local communities and the need to respect their traditional knowledge and rights. In recent years, forest-dependent IPs, local communities, and Southern CSOs have become increasingly engaged in national REDD+ planning and the formulation of R-PPs and have been included as part of national REDD+ technical bodies that contribute to the planning and design of REDD+.

**In FY12, significant changes were made to scale up capacity building for Indigenous Peoples, local communities, and Southern CSOs.** Since its initial approval, the FCPF's Capacity Building Program for Forest-Dependent Indigenous Peoples had an allocation of \$1 million for fiscal years 2009-2013 (\$200,000 per fiscal year) and has funded 14 small

projects in Africa, Asia and Latin America. Based on the positive impact achieved by the program, the PC agreed to a significant expansion of the Capacity Building Program by allocating an additional \$3.5 million to the Forest-Dependent Indigenous Peoples' program for FY 2012-2015 and allocating \$2 million to create a new program for Southern CSOs and local communities.

### *Enhancing Capacity for Dispute Resolution*

**During FY12, the FCPF identified that the national feedback and grievance redress mechanisms available to most REDD Country Participants may not be sufficient to anticipate, mediate, and resolve issues that may arise from REDD+ implementation.** Consequently, the Participants Committee allocated additional funds to strengthen national feedback and grievance redress mechanisms. The additional funds provide for an incremental allocation of up to \$200,000 to each REDD Country Participant (in addition to the original Readiness Preparation Grants of \$3.6 million). These additional funds are earmarked for assessing existing national institutional capacity for feedback and grievance redress, for building institutional capacity and personnel requirements, and for supporting the operation of relevant mechanisms. The FCPF also provided additional funds to reinforce the capacity of Delivery Partners to guide REDD Country Participants with dispute resolution. As such, the World Bank's team for Dispute Resolution and Prevention is helping to design a programmatic approach for grievance redress that reaches all 36 REDD Country Participants. As part of this effort, the team prepared a diagnostic tools for sector-level institutional strengthening for

---

## **BOX 4: IMPROVING SOCIAL INCLUSION – EXAMPLES FROM KENYA AND CAMEROON**

---

In Kenya and in Cameroon, the responsibility for preparing the national REDD+ Readiness Proposals was entrusted to multi-stakeholder working groups consisting of both government and non-government representatives, namely the National Association of Community Forest Associations (NACOF) in Kenya and the REDD+ Civil Society Platform in Cameroon. This set up helped to build buy-in to the REDD+ Readiness process from key stakeholder groups.

- In **Kenya**, the REDD+ Steering Committee entrusted the task of carrying out the consultative process to the Forest Action Network—a network with existing trust and representation from all forestry-related agencies (both government and non-government). As a result, it was possible to extend the consultative processes to the grassroots level, strengthen the basic understanding of REDD+, and provide local stakeholders with the opportunity to engage meaningfully. A series of workshops reached out at the local-level to 10 forest conservancies and, separately, to Indigenous Peoples; the series culminated in regional workshops and a national validation workshop.
- In **Cameroon**, the REDD+ Civil Society Platform created a strong partnership with the government that was formalized in a Memorandum of Understanding outlining the engagement of the platform in the REDD+ Readiness process. The government subsequently transferred FCPF resources to the platform to strengthen its ability to work through its decentralized CSO/IP structures in the country's 10 regions. Local CSO/IP representatives received further support to participate in national and regional information-sharing events and dialogues. Building on the positive experience, the Prime Minister's office recently signed an Inter-Ministerial Decree on REDD+, which also includes one CSO and one Indigenous Peoples representative in the national REDD+ steering committee.

citizen redress; provided training to REDD Country Participants in environment, social and governance risk management; and assisted national REDD+ coordination teams to more strategically manage stakeholder relations.

### 2.2.2. Assessing Land Use and Drivers of Deforestation for REDD+ Strategy Development

**With a view to developing a national REDD+ Strategy, analytical work is needed to adequately assess land-use patterns, drivers of changes in land use, and the policy and governance framework regulating development in relevant economic sectors.** In FY12, a number of countries made significant progress in their analysis of land-use trends and in the prioritization of direct and indirect drivers to be addressed as part of their emerging REDD+ Strategies (see Box 6).

A recent study, *Drivers of Deforestation and Forest Degradation: A Synthesis Report for REDD+ Policymakers*,<sup>5</sup> reviewed 31 national R-PPs, Readiness Preparation Idea Notes, and UN-REDD Programme Documents to improve knowledge on the role of drivers of deforestation and to present a global picture. The report noted that, although the term “driver” is used broadly in the REDD+ debate, it is important to distinguish between the proximate/direct causes and the underlying/indirect causes of deforestation and forest degradation—in particular for the purpose of identifying REDD+ intervention strategies. Based on the analysis of the R-PPs, the study identified commercial agriculture as the dominant proximate driver of deforestation in the majority of countries (especially in Latin America). Commercial timber extraction is the dominant proximate driver of forest degradation in Latin

America and sub-tropical Asia, while fuel wood collection and charcoal production are the main forest degradation drivers on the African continent. The main indirect driving forces of forest change, including population and economic growth, are expected to increase in the coming years. Underlying drivers are shifting and will redefine pressures on forests, including pressure from global urbanization, developing country prosperity, changing food consumption patterns, and developing regional markets for key commodities. Most countries further emphasized weak governance and weak institutions in the forest-related sectors as critical underlying factors in their R-PPs.

#### BOX 5: BUILDING CAPACITY FOR DISPUTE RESOLUTION IN MEXICO

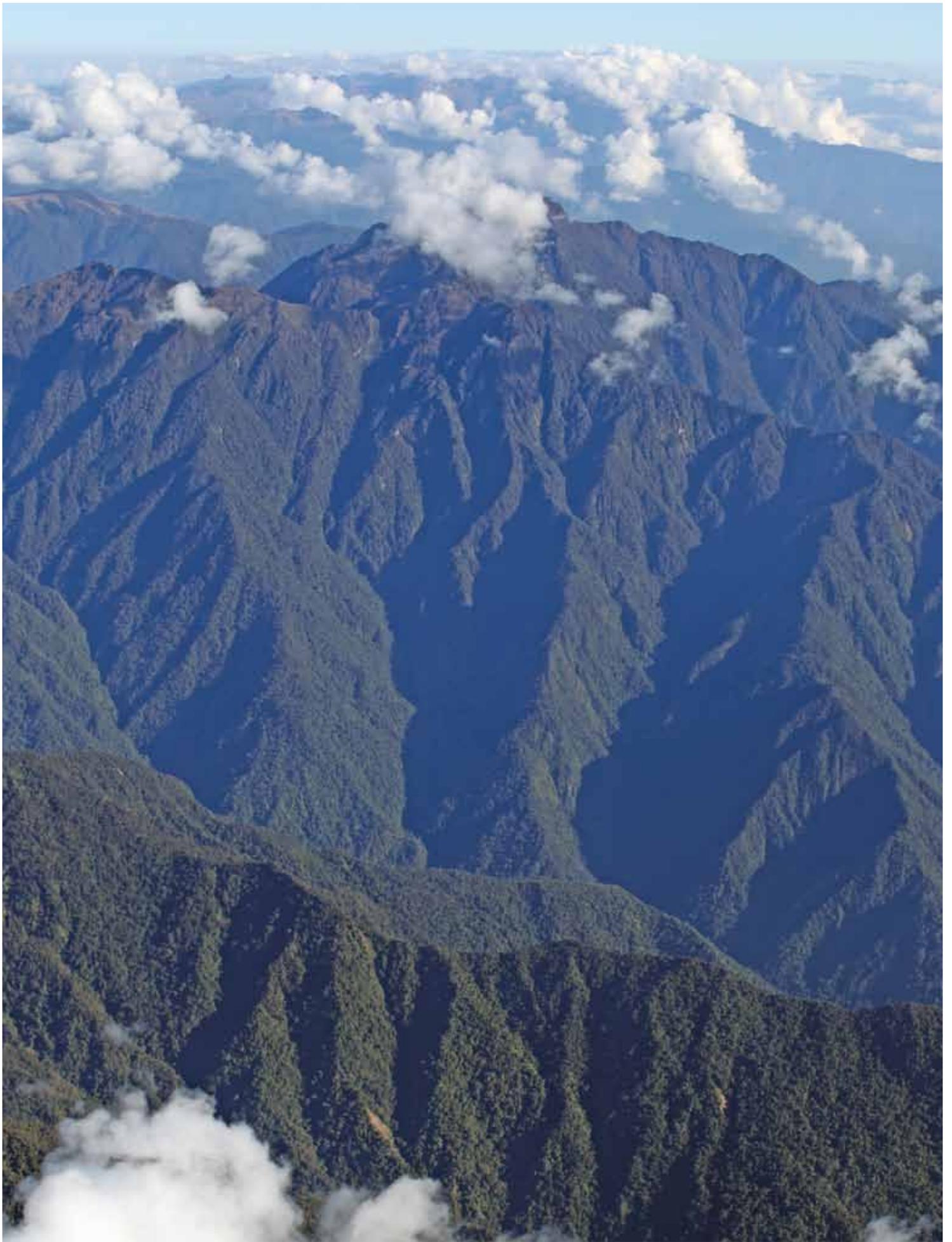
In FY12, Mexico embarked on the design of its grievance redress mechanism for REDD+ related disputes. CONAFOR, Mexico’s government agency for forests, received technical support from the World Bank’s Dispute Resolution and Prevention team to build its grievance redress mechanism according to global best practices. Based on guidance received, CONAFOR identified and addressed gaps in their existing mechanism in order to provide citizens with an easily accessible and credible entry point to log complaints. Rather than creating a new mechanism, CONAFOR build on its existing systems to improve sustainability and allow for greater impact beyond REDD+ activities.

<sup>5</sup> <http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Sep2012/DriversOfDeforestation.pdf>

#### BOX 6: EXAMPLES OF COUNTRIES ASSESSING DEFORESTATION DYNAMICS

**A pertinent analysis of the deforestation dynamics in the Congo Basin was completed in FY12.** The Congo Basin harbors 70 percent of the African continent’s forest cover and forms the second largest tropical forest ecosystem in the world (after the Amazon). The 2-year modeling and research exercise resulted in a compendium of reports that provides policymakers and other interested stakeholders with a better understanding of how the development of different economic sectors, such as agriculture, transport, mining, energy, and logging, is expected to impact on the region’s forest cover. An in-depth analysis was carried out for each of the economic sectors; together, they form the basis for this innovative piece of analytical work that is anchored at the landscape level. At the core of the analysis is a modeling tool that explores the causal chain as well as the inter-linkages of deforestation effects from the different economic forces, including those exogenous to the Congo Basin. The resulting analysis cuts across the different sectors and aims to provide guidance to policymakers on how to better tackle the challenges of reconciling economic growth and forest preservation at a time when the Congo Basin countries are moving forward on the forest transition curve and entering into a phase of more intensive deforestation.

**In Liberia, the REDD+ Readiness process brought the need for land-use planning to the forefront of the national dialogue.** As a post-conflict country, Liberia has a relatively short history of data-based planning. A sub-national assessment of different land uses emphasized the need for the resource-rich country to make strategic choices related to land allocation in view of the development trajectories for mining, agricultural, and forest management concessions. Important input to the national-level discussions on land-use planning were provided by a pilot study, supported by the European Space Agency, that entailed mapping of different land uses and identification of existing overlaps. It has since been proposed to extend this mapping to the whole country, with parallel work on valuation of forest resources supported as part of the FCPF-financed activities. The findings are expected to help decision makers with the formulation of a REDD+ strategy that is supported by relevant spatial data and information on land use.



### 2.2.3. Strengthening the REDD+ Implementation Framework

To ensure the effectiveness of REDD+ Programs, countries will need to adopt legislation and regulations defining the scope of REDD+ in the country, the scale of implementation of REDD+ activities, carbon rights, benefit-sharing arrangements, management systems for REDD+ funds, and procedures for dealing with REDD+ projects and initiatives nationally. A key element of a country's REDD+ implementation framework is a REDD+ registry (i.e., a national geo-referenced tracking system). National REDD+ registries provide governments, donors, and the private sector with transparent and meaningful data from which to make results-based payments for REDD+. They ensure that important information pertaining to location, ownership, carbon accounting, and financial flows of sub-national and national REDD+ projects and programs are captured, processed, stored, and accessible when required. Regardless of whether REDD+ is financed via a market-based mechanism or not, registries play a key role in the national legal and institutional frameworks established for the implementation of REDD+ by helping to aggregate and track multiple levels of REDD+ activities (e.g., national, sub-national, and project level) and to channel international funding. National REDD+ registries are usually established in a step-wise approach and evolve with the national circumstances. Initially, national REDD+ registries simply tracked REDD+ activities by GPS location and with proxies for carbon accounting. As national MRV capacities increase, REDD+ units are tracked more systematically. Finally, once future carbon markets are established, national REDD+ registries will provide for different accounts, allowing for trading of REDD+ units. Box 7 provides examples from two REDD Country Participants that have made progress in building the different elements of a national REDD+ implementation framework.

#### BOX 7: BUILDING BLOCKS OF NATIONAL REDD+ IMPLEMENTATION FRAMEWORKS—TWO EXAMPLES

During FY12, the Government of **Mozambique** embarked on the formulation of new regulations to define the legal treatment of REDD+ demonstration projects. With technical assistance from the FCPF, draft regulations were prepared that standardize the requests from the private sector, NGOs, and communities for permits to undertake REDD+ projects and eventually trade carbon credits that derive from these projects. The regulations deal with the process and competencies for granting such permits to project entities, and set up minimum requirements that a project entity has to comply with when requesting such permits (e.g., safeguards, consultations requirements). The country is currently preparing these regulations in a highly participatory fashion, with active collaboration from national NGOs, research centers, and the private sector. An international workshop in Maputo brought together national stakeholders and international experts for an exchange on how legal issues around REDD+ projects are dealt with internationally and in the forest sector in Mozambique.

The Government of the **Democratic Republic of Congo (DRC)** is pioneering the design of a national REDD+ registry. The government is developing a hybrid approach to REDD+ accounting that includes elements of both sub-national and national approaches to REDD+. The REDD+ registry provides for accountability and transparency as it allows the country to make all information related to REDD+ projects and initiatives in the country accessible to the public. The registry was formalized through a decree signed by the Ministry of Environment establishing a detailed process for project developers to obtain approval for the development of carbon projects. The country expects to be able to attract additional financing to its REDD+ activities by clarifying the "rules of the game" and by avoiding potential double counting of emission reductions. The registry is embedded in the national forest monitoring system; it thus consolidates information on forest change and REDD+ activities in one place. The transparency of the system further promotes legality as it aims to prevent corruption by streamlining administrative processes.

The registry is embedded in the national forest monitoring system; it thus consolidates information on forest change and REDD+ activities in one place. The transparency of the system further promotes legality as it aims to prevent corruption by streamlining administrative processes.



#### 2.2.4. Early Lessons from Implementing the SESA Process

While REDD+ has the potential to achieve multiple social and environmental benefits, there is a risk of adverse impacts if environmental and social considerations are not fully integrated into the upstream development of a country's REDD+ Strategy through the use of a strategic environmental and social assessment (SESA).

Important early lessons related to the implementation of the SESA process were gained in Costa Rica and Mexico (see Box 8). Critical to the success of early SESA implementation is the execution of a participatory process that includes all the stakeholders identified in an initial stakeholder mapping exercise. The scoping exercise of potential environmental and social opportunities and risks must further allow for a dialogue among the government, NGOs, CSOs, Indigenous Peoples, and local communities.

The early lessons from Latin America were transferred to Ghana and Liberia; both countries benefited from additional technical assistance and guidance from the World Bank for planning the roadmap for launching and implementing their SESA processes. As part of the planning process, the roles and responsibilities of all the stakeholders involved were mapped, institutional responsibilities specific to the country context were identified and assigned, and the overall SESA process was broken down into clearly identified and sequenced tasks.

#### BOX 8: EARLY LESSONS FROM THE SESA PROCESS IN COSTA RICA AND MEXICO

- The SESA process must be led by the respective government agency with assistance from the Delivery Partner.
- Early and systematic information dissemination in a culturally appropriate manner is key.
- Identification of all key stakeholders is a must; Indigenous Peoples and other local communities are key stakeholders, but often do not have uniform access to information on REDD+.
- Engagement and continuous dialogue with key stakeholders is important, including those who are opposed to REDD+.
- Prior meetings with key stakeholder groups on contentious issues are recommended.
- Adapting to dynamic situations is important as the key stakeholders and the issues identified may change over time.



### 2.2.5. Advancing the Understanding on Setting Reference Levels

Reference levels serve to measure the performance of countries in reducing emissions and/or increasing uptake from the atmosphere resulting from changes in forest area and carbon content relative to other land uses over time. In light of the high level of uncertainty surrounding both the definition of reference levels and the current lack of a recognized framework for this process, countries are generally advised to adopt sound and feasible scientific methods that present a “no regrets” approach (e.g., by taking a step-wise approach) until the definition of reference levels evolves.

In FY12, the Facility Management Team carried out a review of 25 R-PPs with the goal of better understanding the current trend countries are following to determine their reference levels (see Box 9) and what capacity needs they have in this context. In addition, a more in-depth review exercise was carried out that focused on five countries representative of the global FCPF portfolio (Ghana, Guyana, Kenya, Indonesia, and Mexico). An interactive learning session was subsequently conducted with the five countries, in November 2011, to support them in their ability to develop RLs.

Outputs from this learning activity include a draft Decision Support Tool for Developing Reference Levels for REDD+. The above outputs and related findings were presented by FMT experts at the UNFCCC Expert Meeting on REDD+ Reference

Levels in Bonn, Germany, in November 2011; and at the Forest Day 5 on the sidelines of the 17<sup>th</sup> Conference of the Parties of the UNFCCC in Durban, South Africa, in December 2011.

#### BOX 9: EMERGING TRENDS IN REFERENCE LEVELS FOR FCPF COUNTRIES

- Many countries appear to be using a national RL approach.
- Countries appear to be starting at the sub-national level, eventually building to the national level.
- The majority of countries plan to use a nested approach, i.e., a hybrid approach to REDD+ accounting that includes elements of both sub-national and national approaches to REDD+.
- Two-thirds of the countries proposed developing reference levels by analyzing historic trends and projecting into the future.
- The timeframe of the work on reference levels is unclear; many, however seem to have started in 2000.
- Early cost estimates suggest that RL and MRV development together use more than 50 percent of the total R-PP budget. With such a significant portion of the overall budget earmarked for this building block of REDD+ Readiness, it is important to support countries with implementation of a well-planned approach.



---

#### BOX 10: DEVELOPING REFERENCE LEVELS AND AN MRV SYSTEM IN NEPAL

---

In the sequencing of REDD+ readiness activities, Nepal placed a clear emphasis on the development of its reference levels (RL) and its measurement, reporting, and verification (MRV) system. Detailed terms of references for RL and MRV development were developed and services were procured to kick off preparation activities in FY12. Nepal is using approximately half of its FCPF grant funds for RL/MRV. The development of the RL and MRV system builds on the Forest Resource Assessment 2011-2014 supported by Finland. (Earlier support from Finland helped to build basic capacity in forest monitoring and mapping within government institutions.) A number of other development partners are also actively piloting remote sensing for MRV (e.g., World Wildlife Fund) as well as benefits sharing and community-based forest monitoring (e.g., Norway's NORAD). Looking ahead to future implementation of its MRV system, Nepal is actively participating in the FCPF Working Group tasked with the development of the Methodological and Pricing Approach for the Carbon Fund—and further presented early ideas for an emission reductions program at PC11 in March 2012.

---

#### 2.2.6. Exploring the Link between Community Monitoring and National MRV

**Community forest management features as an element in almost all emerging REDD+ Strategies and is a well-established practice in many countries participating in REDD+ (e.g., Indonesia, Kenya, Mexico, Mozambique, Nepal, and Tanzania).** It is thus sensible to consider the role that communities and Indigenous Peoples play in forest monitoring. This is also specifically referred to in guidance by the UNFCCC COP and the SBSTA.

In FY12, the Facility Management Team organized a workshop in Mexico to deliberate the benefits of community monitoring and how data generated by communities at the local level can support and enhance national MRV systems. The workshop brought together 65 experts from more than 15 countries representing MRV teams from national REDD+ programs in Africa, Asia, and Latin America, Indigenous Peoples, community organizations, NGOs, and technical experts.

Building on a body of published work as well as the experts' knowledge of community monitoring, the workshop confirmed

the benefit of community monitoring as a reliable, cost-effective means of gathering data on local forest stocks and various non-carbon benefits, including socioeconomic benefits and changes in ecosystem health (see Box 11).

Conclusions and recommendations for the way forward are presented in *Linking community monitoring to national Measurement, Reporting and Verification for REDD+*.<sup>6</sup>

---

#### BOX 11: THE BENEFITS OF COMMUNITY MONITORING

---

- Community monitoring is reliable, effective and economic, as local communities are usually familiar with the state of their forest, can be trained to use standard IPCC protocols, and are less costly to use than expert inventories. New easy-to-use software on handheld devices helps to ensure accuracy in measurement and can automate carbon and biomass measurements.
  - Community monitoring enhances ownership and motivation, and may also strengthen the rights of communities in REDD+ and form the basis for a fair distribution of benefits. Community forest management also encourages better management as the data collected can be used to plan management activities.
  - Community monitoring enriches the national carbon database as it provides data at much higher intensity for the areas monitored. Provided standardized protocols are used, community monitoring can directly feed into national forest carbon accounting databases.
  - Community monitoring helps to assess stock changes within forests as ground-level information is needed to signal forest change events and to validate and corroborate data. This is especially true since national forest inventories are usually too sparse to capture the impacts of management.
  - Community participation in safeguards monitoring may serve to be as important as participation in carbon assessments. Self-evaluation of the social and environmental impact of REDD+ initiatives may complement scientific data collection in a very positive way, as the self-evaluation by communities should better reflect local values and priorities.
- 

<sup>6</sup> Available at <http://www.forestcarbonpartnership.org/fcp/node/339>.

# FCPF REDD+ COUNTRY PARTICIPANTS

REDD+ Country Participants.  
37 REDD+ Country Participants have been selected into the FCPF. 36 have signed the Participation Agreement. The map illustrates the progress within the FCPF of each of the 36 countries as of June 30, 2012.

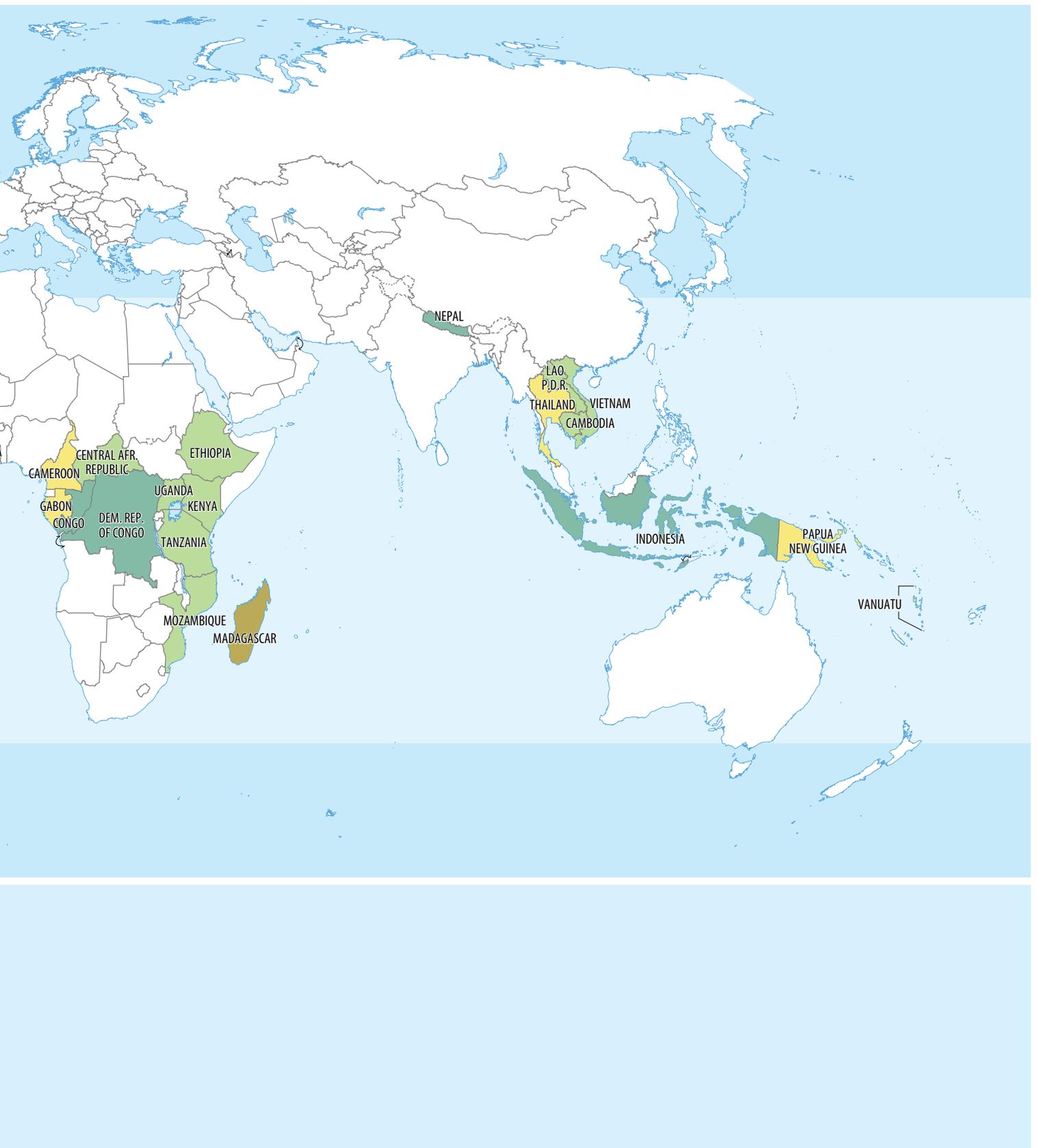
- PARTICIPATION AGREEMENT SIGNED [36]
- INFORMAL R-PP PRESENTATION [18]
- R-PP ASSESSED BY PC [24]
- READINESS PREPARATION GRANT SIGNED [7]

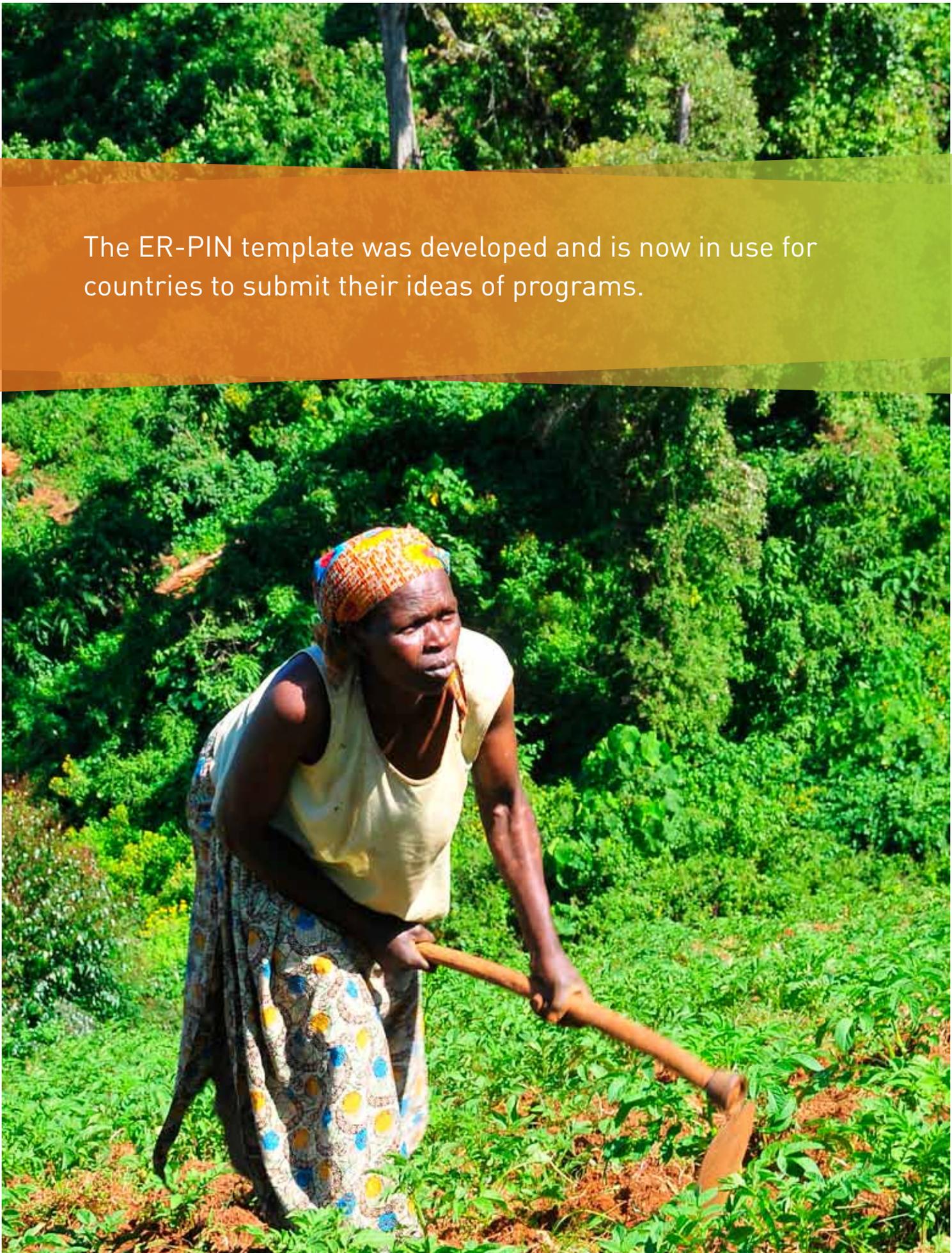
The following countries have signed a R-PP Formulation Grant: Cameroon, Colombia, Costa Rica, Democratic Republic of Congo, El Salvador, Ethiopia, Gabon, Ghana, Guyana, Indonesia, Kenya, Lao P.D.R., Liberia, Mozambique, Nepal, Nicaragua, Republic of Congo, Thailand, Uganda, Vanuatu.

IBRD 36759R3  
OCTOBER 2012

*This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.*





A woman wearing a colorful headwrap and a patterned skirt is working in a field. She is using a wooden hoe to dig the soil. The background is a lush green forest. The image is split into two horizontal sections. The top section shows a dense green forest. The bottom section shows the woman working in a field with green plants. A semi-transparent orange and green banner is overlaid on the top section, containing text.

The ER-PIN template was developed and is now in use for countries to submit their ideas of programs.

# Sowing the Seeds for Early Performance-Based Payments

The Carbon Fund became fully operational in May 2011 and the last year focused on establishing the fundamentals of the methodological and pricing framework for future performance-based payments. Looking back, substantial progress was made in FY 2012 in developing the necessary guidelines and templates and in establishing the rules of procedure needed to operate the Carbon Fund. As a result, the key building blocks for processing an emission reductions program from an initial idea to a negotiated Emission Reductions Purchase Agreement (ERPA) are now in place and the Carbon Fund is ready to accept the first Emission Reductions Program Idea Notes (ER-PIN) for review and potential selection into its pipeline. In the meantime, several countries (Costa Rica, the Democratic Republic of Congo, Ghana, Indonesia, Mexico, Nepal, and Vietnam) presented their early ideas to the Carbon Fund Participants.



## 3.1. Carbon Fund: Building the Framework for Operation

**Strategic discussions on the future of the Carbon Fund and on piloting performance-based payments have significantly advanced over the past year.** Looking back at FY12, the majority in a set of sequenced goals to advance the Carbon Fund<sup>7</sup> have been achieved: two funds have raised \$457 million.

- The ER-PIN template was developed and is now in use for countries to submit their ideas of programs.
- The criteria for selecting ER-PINs into the pipeline were agreed upon by the Carbon Fund Participants.
- The Rules of Procedure for the Carbon Fund were agreed upon by the Carbon Fund Participants.
- Guiding principles on the methodological framework and policy guidance on a pricing approach for the Carbon Fund were developed (see Section 3.3) and agreed upon by the Participants Committee (PC). A working group has been established to carry this work further and to provide expertise and advice as the FMT develops a draft Methodological Framework and Pricing Approach for consideration by the Carbon Fund Participants at CF6 in FY 2013.

While progress has been made on the Readiness Package (see Section 2.1.4), other elements (e.g., the assessment criteria) continue to be under deliberation by the PC and are expected to be adopted in FY13.

Discussions on the ERPA General Conditions advanced in FY12. The PC agreed that, due to the complexity and novelty of the concepts, additional time was needed before an agreement could be reached on the details. A first step on the roadmap to the final ERPA General Conditions is the endorsement of the ERPA Term Sheet that was prepared in FY12 and is expected to be adopted by the PC in early FY13.

### BOX 12: ABOUT THE FCPF CARBON FUND

**The FCPF Carbon Fund will pilot payments for verified emission reductions from REDD+ programs with the goal of providing incentives** to reduce emissions while protecting forests, conserving biodiversity, and enhancing the livelihoods of forest-dependent Indigenous Peoples and local communities. Under the Carbon Fund, about five forest countries participating in the FCPF whose Readiness Packages have been endorsed by the Participants Committee will enter into an Emission Reductions Purchase Agreement (ERPA) for an average amount of between \$30-\$40 million. It is anticipated that the ERPAs will cover a period of five years. Programs are expected to be undertaken at a significant scale (for example, at the level of an administrative jurisdiction within a country or at the national level), to align with the proposed national REDD+ Strategy and management framework, and to be consistent with the emerging national REDD+ MRV system and national reference emission levels.

<sup>7</sup> An Action Plan with a sequenced set of goals for the Carbon Fund was agreed upon at an organizational meeting held in Barcelona in June 2011.

### 3.2. Opening the Carbon Fund Pipeline: ER-PIN Selection and Processing Guidelines

In FY12, the processing steps, from ER-PIN to ERPA implementation, were deliberated and agreed to (see Figure 5).

The ER-PIN is the first document to be presented to the Carbon Fund and, upon satisfactory review against a set of criteria, forms the basis for the decision on inclusion in the pipeline. FCPF REDD Country Participants that are making progress toward REDD+ Readiness are eligible to submit an ER-PIN to the Carbon Fund (see Box 13 for the selection criteria).

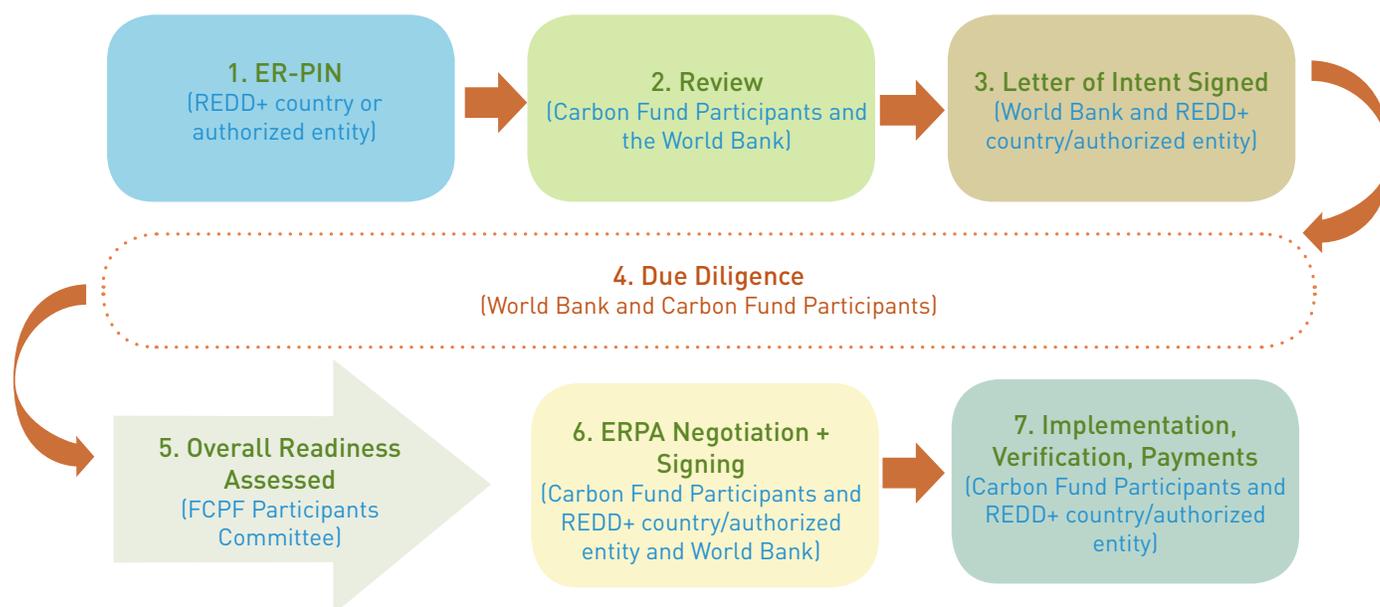
ER-PINs will be reviewed in batches, rather than on a rolling basis, to allow for comparison among ER-PINs. The windows for submission of ER-PINs will be aligned with the Carbon Fund meetings. In FY12, it was agreed to open the first window for submission of ER-PINs prior to CF5 in October 2012. Accordingly, eligible entities from REDD Country Participants were invited to present, by September 1, 2012, ER-PINs that will be considered at CF5 in FY13.

Prior to the opening of the first window for submission of ER-PINs, Carbon Fund Participants were encouraged to share early ideas on possible ER Programs with the Carbon Fund for the purpose of providing early feedback and expert advice on the evolving ER concepts. In FY12, a number of countries took advantage of this opportunity for early feedback and guidance and informally presented ideas to the Carbon Fund Participants. These included Costa Rica, the DRC, Indonesia, and Mexico at CF2; Ghana and Nepal at CF3; and Vietnam at CF4.

#### BOX13: CRITERIA FOR A DECISION ON WHETHER TO INCLUDE AN ER-PIN IN THE CARBON FUND PIPELINE

- Progress toward Readiness:** The emission reductions (ER) program must be located in a REDD Country Participant that has signed a Readiness Preparation grant agreement (or the equivalent) with a Delivery Partner under the Readiness Fund and prepared a reasonable and credible timeline to submit a Readiness Package to the Participants Committee.
- Political Commitment:** The REDD Country Participant must demonstrate a high-level and cross-sectoral political commitment to the ER Program and to implementing REDD+.
- Methodological Framework:** The ER Program must be consistent with the emerging methodological framework, including the PC's guiding principles on the methodological framework.
- Scale:** The ER Program must be implemented either at the national level or at a significant sub-national scale, and generate a large volume of emission reductions.
- Technical Soundness:** All the sections of the ER-PIN template must be adequately addressed.
- Non-carbon Benefits:** The ER Program must generate substantial non-carbon benefits.
- Diversity and Learning Value:** The ER Program must contain innovative features, such that its inclusion in the portfolio would add diversity and generate learning value for the Carbon Fund.

Figure 5: Processing Steps: From ER-PIN to ERPA Implementation





### 3.3. Developing the Methodology Framework and Pricing Approach

In FY12 a working group was established to make recommendations to the PC on the broad, overarching guiding principles for the methodological framework and the policy guidance for the pricing approach. Both are expected to evolve over time into detailed operational guidelines for implementing emission reductions programs. At this stage, however, only broad guidance is needed to further shape the development of the five building blocks of an ER Program (i.e., methodological framework, pricing approach, ER Program design, ERPA contract and delivery, and World Bank due diligence). As per the FCPF Charter, the guiding principles are intended to be fundamental statements about the desired outcome of the ER Programs.

Since the overarching objectives and the scope of the Carbon Fund are already sufficiently known, the working group

went a step further and defined elements that would help to further operationalize the methodological framework for the Carbon Fund. For the purpose of the methodological framework, the working group defined overarching accounting and programmatic elements to ensure consistency with the UN-FCCC principles of transparency, consistency, completeness, accuracy, and guidance on safeguards. For the purpose of the policy guidance on the pricing approach, the working group defined elements to ensure fairness, flexibility, and simplicity, while protecting both parties (buyer and seller) from extreme price fluctuations (see Box 14).

**It is worth mentioning that the working group itself was an excellent way of bringing together representatives from REDD Country Participants, Donor Participants, Carbon Fund Participants, Observers, and FMT experts to carry this work forward in a highly participatory manner.** The overall process was a successful joint learning exercise that fostered knowledge transfer among all the members of the working group.



---

**BOX 14: KEY ELEMENTS OF THE METHODOLOGICAL AND PRICING APPROACH FOR THE FCPF CARBON FUND**


---

**Recommendations for elements on carbon accounting:**

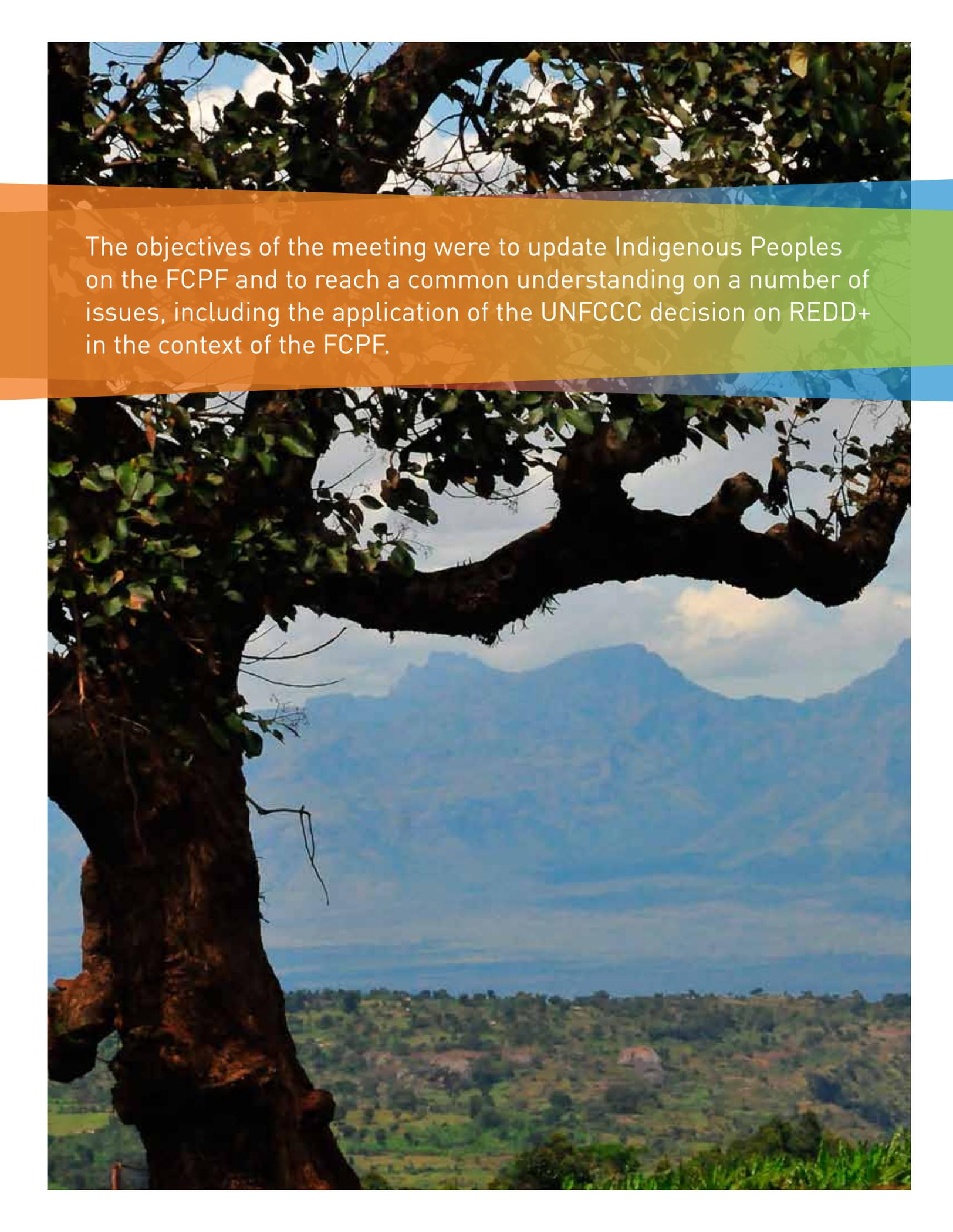
1. **Stepwise approach to reduce uncertainties:** ER Program data and methods should be consistent with IPCC Tier 2 standards. In addition, the ER Programs should, by using conservative assumptions and quantitative assessment of uncertainties, be incentivized to reduce uncertainties associated with all aspects of accounting, inter alia reference levels, monitoring, and reporting (i.e., such that reductions in uncertainty are rewarded by a corresponding upward adjustment in ER volume).
2. **Reference level:** ERs from an ER Program should be conservatively measured and reported relative to a transparently presented and clearly documented forest reference emission level (REL) or forest reference level (RL) for the ER Program area, following the guidance of the Carbon Fund Methodological Framework and informed by the emerging national REL/RL.
3. **Consistency with monitoring system:** ER Programs should monitor and report ERs and other non-carbon variables consistent with the emerging national forest monitoring system, using methods appropriate to the ER Program circumstances (including community monitoring that is transparently presented and clearly documented).
4. **Address reversals:** The ER Program should, to the extent feasible, identify potential sources of reversal of ERs (e.g., non-permanence); have the capacity to monitor and report any reversal of previously monitored and reported ERs; and have measures in place to address major risks of anthropogenic reversals for the ER Program area.
5. **Address displacement:** Potential sources of domestic and international displacement of emissions (leakage) should be identified by assessing all the drivers of land-use change relevant for the ER Program; and leakage should be measured to minimize and/or mitigate the risk that displacement of domestic emissions are incorporated into ER Program design and the estimation and monitoring of ERs.

**Recommendations on programmatic characteristics:**

1. **Endorsement and implementing capacity:** The ER Program should be endorsed by the national government (or governments, as appropriate) and be implemented by an entity that has the capacity to implement the proposed REDD+ activities, potentially via a stepwise approach.
2. **Scale and ambition:** The ER Program is ambitious, in that it demonstrates at a large scale the potential of the full implementation of the variety of interventions of the national REDD+ strategy, covering a significant portion of the territory.
3. **Safeguards:** The ER Program meets World Bank social and environmental safeguards, promotes and supports the safeguards included in UNFCCC guidance related to REDD+, and provides information on how these safeguards are addressed and respected, including through the application of appropriate grievance mechanisms.
4. **Stakeholder participation:** The design and implementation of ER Programs should be based on and use transparent stakeholder information sharing and consultation mechanisms that ensure community support and the full and effective participation of relevant stakeholders (notably affected Indigenous Peoples and local communities).
5. **Benefit sharing:** The ER Program should use clear, effective, and transparent benefit-sharing mechanisms with broad community support and support from other relevant stakeholders.
6. **Non-carbon benefits:** The ER Program should contribute to broader sustainable development. This could include, but is not limited to, improving local livelihoods, building transparent and effective forest governance structures, making progress on securing land tenure and enhancing or maintaining biodiversity and/or other ecosystem services. The ER Program should monitor and report on these non-carbon benefits as feasible, taking note of existing and emerging guidance on monitoring of non-carbon benefits by the UNFCCC, CBD, and other relevant platforms.

**Recommendations on pricing elements:**

1. **Fairness, flexibility and simplicity:** Pricing should be fair and flexible, be kept as simple as possible, and protect parties from extreme price fluctuations.
  2. **Price structure:** The ERPA price should, where feasible, be a combination of fixed and floating portions
  3. **Information negotiations:** The ERPA price should be determined by negotiations between the CF Participants (the buyer) and the ER Program entity (the seller) based on their respective willingness to pay or to receive payment. This negotiations process should be informed by market surveys, transaction benchmarks, and/or other relevant information..
  4. **Non-carbon benefits:** The ERPA price negotiations process offers an opportunity for non-carbon benefits to be taken into consideration, although there would be no systematic quantification of non-carbon benefits for pricing under the Carbon Fund.
-

A large, dark tree trunk is visible on the left side of the image, extending from the bottom towards the top. The background shows a vast landscape with a valley filled with green vegetation and a range of blue mountains in the distance under a clear sky. The image is overlaid with a semi-transparent orange and green banner that contains text.

The objectives of the meeting were to update Indigenous Peoples on the FCPF and to reach a common understanding on a number of issues, including the application of the UNFCCC decision on REDD+ in the context of the FCPF.

# Advancing the REDD+ Agenda Together

## 4.1. Expanding to Multiple Delivery Partners

While the World Bank was initially the only eligible Delivery Partner for the FCPF Readiness Fund, the Participants Committee at its 9<sup>th</sup> meeting in June 2011 approved the Inter-American Development Bank (IDB) and the United Nations Development Programme (UNDP) to serve as Delivery Partners under the Readiness Fund. The United Nations Food and Agriculture Organization (FAO) was approved to act as an additional Delivery Partner at PC10 in October 2011.

The decision to open the Readiness Fund to Multiple Delivery Partners was based on the requests of REDD Country Participants as well as the fact that other Delivery Partners may be more effective at delivering support services in some countries based on their local presence and portfolio of development operations.

**FY 2012, the Facility Management Team substantially advanced the legal and administrative work to finalize the Transfer Agreements to be signed between the World Bank, as the Trustee of the FCPF, and IDB and UNDP, respectively, as Delivery Partners.** Negotiations on the Transfer Agreements were completed during FY12 and both agreements are expected to be signed in early FY13. Cambodia, the Central African Republic, Honduras, Panama, Paraguay, Papua New Guinea, and Suriname have expressed interest in working with UNDP as their Delivery Partner. Accordingly, UNDP is now assessing these requests. A similar process is underway with the IDB, which is expected to provide REDD+ readiness support services to Guyana, Guatemala, and Peru at the request of these countries. Both IDB and UNDP are expected to request that the FCPF Trustee transfer funds for the first countries as soon as Transfer Agreements are signed. Country pairings have not yet been identified for the FAO under the Multiple Delivery Partner arrangement.

**To ensure a uniform set of safeguard standards, the Common Approach to Environmental and Social Safeguards for Multiple Delivery Partners had already been approved at the 9<sup>th</sup> FCPF PC meeting in June 2011.** The Common Approach is designed to provide the World Bank and the Multiple Delivery Partners with a common platform for risk management and quality assurance in the REDD+ Readiness Preparation process by achieving substantial equivalence with the World Bank's applicable policies and procedures on environmental and social safeguards, disclosure of information, and grievance and accountability mechanisms.

## 4.2. Scaling up the Dialogue with Indigenous Peoples

**An unprecedented global meeting of Indigenous Peoples' representatives took place in Guna Yala, Panama, from September 27-29, 2011.** Participants included Indigenous Peoples representatives from 28 countries, as well as representatives from the Delivery Partners (WB, UNDP, IDB), from international and national NGOs, and from the FMT.

**This global dialogue was organized in response to a request made by Indigenous Peoples' leaders to the World Bank in FY11.** For planning purposes, a Steering Committee was formed composed of six Indigenous Peoples leaders representing Francophone Africa, Anglophone Africa, Asia, Meso-America, South America, and the Pacific. The objectives of the meeting were to update Indigenous Peoples on the FCPF and to reach a common understanding on a number of issues, including the application of the UNFCCC decision on REDD+ in the context of the FCPF, the application of the Common Approach to Environmental and Social Safeguards for Multiple Delivery Partners, and the mechanisms for effective engagement of Indigenous Peoples in FCPF processes.

**The global dialogue at Guna Yala resulted in the adoption of an Action Plan by the Indigenous Peoples representatives.** One of the main requests was a proposal for expanding the existing capacity building program, to which the PC responded positively (see Section 2.2.1). While in Guna Yala, the FCPF also committed to support the organization of a series of regional-level follow-up meetings to the global dialogue. The first event in this series was the *Pan-African Indigenous Peoples' Dialogue with the FCPF* held in Arusha, Tanzania, in April 2012; it brought together more than 50 Indigenous Peoples representatives from Africa. Similar regional events are planned for Latin America (Lima, Peru) and Asia (Chiang Mai, Thailand), followed by a subsequent second global dialogue in the first half of FY13.



The ongoing series of Indigenous Peoples' dialogues has not only reaffirmed the commitment of the FCPF to meaningfully engage and consult with Indigenous Peoples but has also contributed to increasing the attention of governments of REDD Country Participants to the need to effectively engage Indigenous Peoples in national REDD+ Readiness processes. Moreover, workshops have strengthened the common understanding of the World Bank's environmental and social safeguard policies and, more specifically, the application of the SESA approach to the FCPF's Readiness mechanism. More generally, workshops have contributed to building overall capacity of and collaboration among Indigenous Peoples and to identifying remaining barriers to effective Indigenous Peoples' participation in REDD+ readiness at both national and global levels.

---

**BOX 15: COUNTRY-LEVEL DIALOGUE WITH INDIGENOUS PEOPLES —AN EXAMPLE FROM COLOMBIA**

---

Colombia continues its active engagement with Indigenous Peoples through early dialogue and information dissemination activities at the national, regional and local levels. Additionally, the roadmap for initiating the SESA process in the 5 eco-regions envisions further activities of engagement and dialogue with Indigenous Peoples, afro-colombian and campesino communities at the regional and local levels in identifying the potential risks and benefits of the proposed REDD+ strategic options. In an effort to continue systematic dialogue, for example, a regional platform for discussing climate change and REDD+ in the Amazon area with Indigenous Peoples was

established composed of representatives from Indigenous Peoples' organizations. As part of Colombia hosting the 13<sup>th</sup> FCPF Participants Committee Meeting in Santa Marta, a meeting with over 30 Colombian civil society organizations, Indigenous Peoples and afro-colombian communities was organized by the FCPF and the World Bank Latin America and Caribbean regional team, in coordination with the Ministry of Environment and Sustainable Development (MADS) in Bogota. Participants exchanged experiences and perspectives about the national REDD+ Readiness Process, including discussions on the existing participatory mechanisms and platforms. The meeting also facilitated group discussion resulting in recommendations on the following three topics: (i) the most adequate manner to build a multi-stakeholder participation mechanism for the REDD+ process; (ii) identification of priority activities to be carried out in the next months as part of the Colombia REDD+ readiness process; and, (iii) improvement of the self-selection process for the observer seat of Indigenous Peoples and forest dwellers and the observer seat for CSOs of the FCPF Participants Committee.

---

**4.3. Opening the Readiness Fund to New Countries**

In response to the expressions of interest received from a number of eligible countries over the past year, the FCPF Participants Committee discussed the opening of the Readiness Fund to additional countries. Formal expressions of interest were received from Belize, Bhutan, Burundi, Chad, Côte d'Ivoire, Guinea, Jamaica, Nigeria, Pakistan, Philippines, Sri Lanka, Sudan, and Togo. During its 10<sup>th</sup> meeting in Berlin,



the PC decided to consider the process and criteria for further inclusion of countries in the FCPF at its 14<sup>th</sup> meeting in Washington, DC, in March 2013. As agreed by the PC during its 11<sup>th</sup> meeting in Asuncion, the criteria will include, at a minimum: i) availability of resources; ii) the country's proposed date of R-PP submission for formal assessment by the PC; and iii) the country's proposed Delivery Partner.

An important consideration for the PC is the need to balance the financial and human resources implications associated with a possible expansion of the number of FCPF REDD Country Participants with continued quality support to the existing REDD Country Participants and the capturing of lessons from the faster-moving countries. The PC agreed that the allocation of existing resources and support for REDD+ Readiness activities among the current REDD Country Participants will take precedence over allocations to potential new countries.

#### 4.4. Coordinating with other REDD+ Initiatives

REDD+ has a challenging agenda given its multi-sectoral and multi-stakeholder dimensions, and the large financial and capacity needs involved. It is important, therefore, that development partners come together to provide a package of financial and technical assistance to better serve their client countries.

##### 4.4.1. UN-REDD Programme

For the past three years, the FCPF and the UN-REDD Programme have deepened their cooperation in providing

assistance to countries to become ready for REDD+. FY12 consolidated this effort, with closer coordination within host countries on national REDD+ planning, national REDD+ committees, and the network of CSOs involved in REDD+.

Coordination has entailed joint country missions and sharing responsibility for financing Readiness activities. At the global level, coordination between the FCPF and the UN-REDD Programme involves joint scheduling of governance body meetings, the harmonization of programmatic documents, the coordination of analytical and capacity building efforts (see Box 16) and the joint delivery of Secretariat services to the REDD+ Partnership. In addition, the FCPF and UN-REDD updated the joint R-PP submission template as of April 2012. There may still be room for closer cooperation further in the future.

---

#### BOX 16: JOINT COUNTRY NEEDS ASSESSMENT

---

The UN-REDD Programme and the FCPF jointly commissioned a Country Needs Assessment in FY12 to identify and prioritize the technical, institutional and financial needs of REDD+ countries in advancing REDD+ readiness. The decision to carry out a joint assessment was made following requests for engaging countries in assessments of countries' readiness needs to the UN-REDD Programme Policy Board during its 6<sup>th</sup> meeting in Vietnam and the 10<sup>th</sup> FCPF Participants Committee Meeting in Germany.

---



#### 4.4.2. Forest Investment Program

The Forest Investment Program (FIP) supports developing country efforts to reduce deforestation and forest degradation and promote sustainable forest management that lead to emission reductions and enhancement of forest carbon stocks (REDD+). The FIP focuses on sizable investments in a smaller number of key countries in order to achieve economic transformation and generate global knowledge. The FIP is currently active in eight pilot countries (Brazil, Burkina Faso, the DRC, Ghana, Indonesia, Lao PDR, Mexico, and Peru), most of which are also FCPF REDD Country Participants (with the exception of Brazil and Burkina Faso).

At the country level, FIP investment plans propose interventions that have been prioritized through a country-led process. They build on the FCPF Readiness or equivalent processes and draw on the Readiness Preparation Proposals and the emerging REDD+ Strategies. Coherence and cooperation across the different FIP and FCPF activities have been achieved, especially in the DRC and Mexico, as governments ensure that FIP planning is coordinated by the same teams that carry out FCPF planning and coordination. At the Secretariat level, the FIP uses experts from the FCPF Roster of Experts to review the draft FIP Investment Plans in an effort to ensure that FIP investments are consistent with national R-PPs and emerging REDD+ Strategies. The two programs are also working together to harmonize the delivery process for the grants mechanisms for Indigenous Peoples and local communities supported under each program. The FIP further commissioned a learning product on REDD+ stakeholder collaboration at the country level that, amongst other things, is intended to inform stakeholder engagement across the different REDD+ initiatives and provide recommendations to further enhance such collaborative efforts.

#### 4.4.3. BioCarbon Fund

The BioCarbon Fund (BioCF) is a public-private carbon fund, operational since 2004, that pioneers projects that sequester or conserve carbon in forest- and agro-ecosystems, mitigating climate change and improving livelihoods. The overall goal of the fund is to demonstrate that land-based activities can generate high-quality emission reductions with strong environmental and socioeconomic benefits for local communities. About 80 percent of the BioCF's resources have been earmarked for afforestation and reforestation projects under the Clean Development Mechanism; the remainder has been allocated to REDD+ and sustainable land management projects. BioCF projects have a range of different objectives, including fuel wood production, timber production, and environmental restoration. With the development of 10 CDM-approved methodologies and a variety of capacity and outreach activities, the BioCF has actively promoted the development of the forest carbon market and pioneered forest carbon transactions on the basis of local know-how.

The BioCF and the FCPF are fully complementary as they operate at different scales, with the BioCF largely investing in and developing methodologies at the project level that can be integrated into larger systems and the FCPF building capacity for national-level REDD+ accounting and piloting national or sub-national level implementation.

By pioneering forest carbon transactions at the project level, the BioCF is learning important lessons on topics that are highly relevant for the operationalization of the FCPF Carbon Fund. More specifically, the BioCF is generating experiences on: i) how to set up, monitor and verify performance-based payments on the ground; ii) how to set up benefit-sharing mechanisms for the monetary benefits from forest carbon transactions; iii) how to define and account for non-carbon benefits, such as environmental and socioeconomic benefits; and iv) how to prevent and address the potential occurrence of reversals that could undermine the environmental integrity of a forest carbon transaction.

### 4.5. Harvesting and Sharing Knowledge

#### 4.5.1. Lessons for REDD+ from Payment for Environmental Services

A major knowledge product delivered in FY12 was the publication *Lessons Learned for REDD+ from PES and Conservation Incentive Programs*.<sup>8</sup> The publication documents experiences generated from over a decade of implementation of Payments for Ecosystem Services (PES) and conservation incentive programs in Costa Rica, Mexico, and Ecuador. The publication shares a wealth of lessons learned as well as practical implications for REDD+ programs and policies for stakeholders in other countries. The applicability of the PES experience to emerging national REDD+ programs is based on the fact that both PES and REDD+ are performance-based payment mechanisms and therefore rely on supportive legal and policy frameworks as well as effective measurement, reporting, and verification. South-South knowledge exchange on the topic was facilitated with coordination support from Forest Trends, with a technical workshop that convened 20 PES experts and a number of practitioners in Costa Rica. Additional panel discussions involving a range of international stakeholders were held in Durban and Washington.

#### 4.5.2. Issues and Options for National REDD+ Registries

A timely knowledge piece delivered in FY12 was *National REDD+ Registries—An Overview of Issues and Design Options*<sup>9</sup>—a joint publication from the FCPF and the German Development Bank (KfW). As countries progress toward REDD+

<sup>8</sup> <http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Mar2012/Full%20version%20of%20PES%20Lessons%20for%20REDD%2B%20March%202012.pdf>

<sup>9</sup> <http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Jun2011/REDD%20Brosch%20C3%20BCE%202011%20druck%20digital.pdf>



Readiness, the FCPF and other REDD+ partners are exploring ways to fund forest carbon emission reductions through results-based payments that form part of a national REDD+ strategy. Before countries adopt national reference levels, however, a mechanism is needed to track and validate sub-national, results-based actions to ensure environmental integrity across different REDD+ initiatives and to promote transparency and appropriate benefit sharing with stakeholders. To date, there is little practical experience illustrating how sub-national or project Emission Reductions Programs (ERPs) can be integrated into national accounting. REDD+ registries could be an important tool to centrally record the information necessary to address these issues and facilitate transparency and tracking of that information. The report elaborates how national REDD+ registries could help to manage the implementation of ERPs, results-based funding, private investment, and, potentially, REDD+ carbon markets if a market-based mechanism is used.

#### 4.5.3. South-South Dialogue on Benefit Sharing

Indicative of the role of the FCPF in supporting global knowledge creation and dissemination, the FCPF promoted South-South knowledge exchange on benefit sharing. REDD+ countries have acknowledged the critical importance of equitable, pro-poor, and transparent benefit sharing, and almost all are in the process of developing frameworks on benefit sharing. While there are some good examples of benefit sharing mechanisms in use in local-level REDD+ pilot projects as well as in other sectors at the national level (e.g., mining), no functioning model yet exists for REDD+ at the national level. As countries continue to advance the design of their respective systems, they continue to grapple with the pragmatic details on *what to share* (e.g., how to designate direct and indirect benefits, how to determine share of benefits), *who to share it*

*with* (e.g., how to identify beneficiaries, how to ensure principles of equity), and *how to share* (e.g., how to select an appropriate and effective distribution mechanism, how to avoid and mitigate potential conflict, how to monitor performance).

To facilitate cross-country knowledge sharing on this topic, the Facility Management Team organized a series of three dialogues in FY12 involving 13 countries (Central African Republic, Republic of Congo, Ethiopia, the DRC, Ghana, Indonesia, Kenya, Lao PDR, Liberia, Madagascar, Nepal, Tanzania, and Vietnam).<sup>10</sup> Particularly helpful to the participants were the experiences shared by countries who have working benefit-sharing mechanisms in place. Examples included a cash payment to individual households employed by REDD+ pilot projects in Tanzania, a revenue distribution mechanism from a carbon offset project bordering the Makira Protected Area in Madagascar, and a REDD+ questionnaire in Vietnam designed to filter the collective choices of different beneficiary groups for benefit and disbursement schedules. Overall, participants agreed that determining “legitimacy” is key to the success of a benefit-sharing mechanism and that countries will need to cover this topic as part of their ongoing consultation and stakeholder participation processes.

As part of the knowledge exchange among countries, relevant studies and tools developed by partner initiatives were also reviewed. This included a study<sup>11</sup> by the Program on Forests (PROFOR) which aims to inform the design of benefit-sharing arrangements in REDD+ initiatives, as well as a related interactive tool designed to facilitate the assessment of benefit-sharing mechanisms that would match specific country capacity and context.

<sup>10</sup> A similar session is planned with Latin American countries in FY13.

<sup>11</sup> <http://www.profor.info/knowledge/making-benefit-sharing-arrangements-work-forest-dependent-communities>.



#### 4.5.4. South-South Knowledge Exchange on Community Forestry

A new publication provides practical information on the role of community forest management as a strategic option to promote REDD+ goals. Various tropical countries have already demonstrated that the effective decentralization of forest management rights and responsibilities, when combined with long-term support from local communities, can lead to better management of forest resources. REDD+ in turn can foster decentralization of forest management rights and responsibilities. The publication *REDD+ and Community Forestry: Lessons Learned from an Exchange of Brazilian Experiences with Africa*,<sup>12</sup> draws on a successful South-South knowledge exchange on this topic in Brazil that included policymakers and experts from five countries in the Congo Basin—Cameroon, Gabon, the Central African Republic, the Democratic Republic of Congo, and the Republic of Congo—and Madagascar. Learning first-hand about the Brazilian experience of empowering forest communities to manage their resources was particularly relevant to the DRC, where new legislation on community forest management is currently being discussed. More generally, South-South exchanges like this have proven to be powerful opportunities for policymakers to learn how their counterparts in other countries have tackled similar challenges; this helps them to improve the efficiency and effectiveness of emerging REDD+ Strategies in their own countries.<sup>13</sup>

#### 4.6. The REDD+ Partnership

The REDD+ Partnership—for which the FMT serves as Secretariat jointly with the UN-REDD Programme Team—takes REDD+ issues outside of negotiations to advance progress on REDD+ and tap the knowledge of various constituencies. The FMT worked closely with the UN-REDD Programme Team and

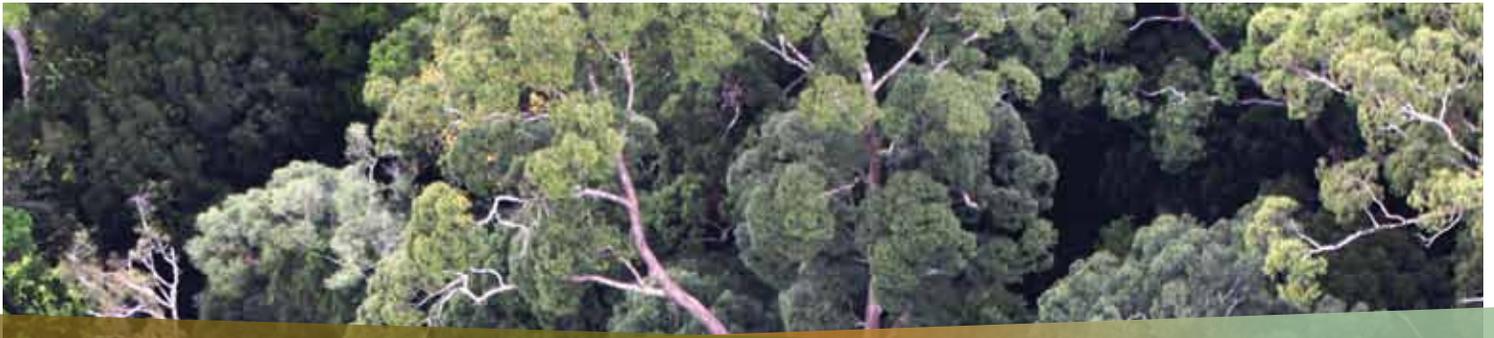
the rotating Partnership co-chairs to organize four Partnership meetings in FY12; each brought together approximately 100 country partners and stakeholders. The Partnership made significant advances in developing the Voluntary REDD+ Database that countries are using to report on fast-start financing, making it possible to see how REDD+ financing flows evolve, to identify important discrepancies, and to assess whether or not the discrepancies are being resolved over time. An external review of multilateral REDD+ initiatives, completed in September 2011, revealed the significant progress that has been made in coordinating and harmonizing projects and offered recommendations for making further progress.

A number of workshops broadened the REDD+ discussions to a wider audience—for example, bringing in finance experts to discuss the potential for private sector engagement in REDD+, inviting experts from California, Australia, and the EU to discuss existing and emerging pay-for-performance ER Programs, and introducing finance and economy ministry officials to REDD+. The workshops also brought together practitioners to discuss such key issues as safeguards, monitoring, reference levels, financing options, and drivers of deforestation and forest degradation.

Importantly, partners also reflected on the achievements of the Partnership—highlighting its role in increasing transparency, trust, and voice among countries and stakeholders—and began discussing whether or not to extend the Partnership’s work program beyond its original term of end of year 2012.

<sup>12</sup> <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSDNET/0,,contentMDK:23202165~menuPK:64885113~pagePK:7278667~piPK:64911824~theSitePK:5929282,00.html>.

<sup>13</sup> The initiative was carried out by the FCPF with funding support from the Global Environment Facility, coordination support from the Amazonas Sustainable Foundation, and technical support from the French Office National des Forest International.



As increasing numbers of REDD+ countries move into R-PP implementation—“getting ready for REDD+” —and, as the work of the Carbon Fund gets underway, the annual expenditures and disbursements of both funds are increasing as forecast.



# FY12 Financial Report of the Facility

## 5.1. Budget Approval Process

With four fiscal years of Readiness Fund operation now complete, and with the first Carbon Fund budget approved in June 2011, the budgetary, expenditure, and financial planning processes within the Facility are becoming more systematized. As increasing numbers of REDD+ countries move into R-PP implementation—“getting ready for REDD+”—and, as the work of the Carbon Fund gets underway, the annual expenditures and disbursements of both funds are increasing as forecast. Looking ahead, the expansion to other Delivery Partners in the Readiness Fund will introduce inevitable complications in the financial processes. On the upside, as the other Delivery Partners move into action, financial commitments and disbursements will accelerate.



The budgets for both the Readiness Fund and the Carbon Fund are based on the World Bank’s fiscal year (beginning July 1) and are approved annually in accordance with the FCPF Charter. The Participants Committee (PC) is responsible for approval of the annual budget for the Readiness Fund and the “Shared Costs” of the Facility, whilst the participants of the Carbon Fund are responsible for approval of the annual budget for the Carbon Fund as a separate trust fund. Both budgets are usually approved in June of the preceding fiscal year.

To date, the PC (and its predecessor, the Steering Committee) has approved budgets for the Readiness Fund for FY09-FY13, along with several amendments and revisions to those budgets during each fiscal year. Only two annual budgets have been approved for the Carbon Fund (FY12 and FY13), with informal guidance sought by the Facility Management Team for developmental expenditures prior to that time (before the fund became fully operational).

As part of the approval of the Readiness Fund budget, the FCPF Charter indicates that the PC shall make decisions on all Shared Costs for activities that cut across and benefit both the Readiness and Carbon Funds. In practice, the Shared Costs have

typically included FCPF Secretariat and REDD+ Methodology Support activities, such as the costs of travel and expenses for REDD Country Participants to attend the Participants Assembly and PC meetings and the work of the Technical Advisory Panels.

Pursuant to the Charter, the Readiness Fund pays 65 percent and the Carbon Fund pays 35 percent of Shared Costs, unless the PC decides otherwise. The PC has approved resolutions waiving cost sharing through the end of FY11 (to reflect the fact that the Carbon Fund was only fully operational as of May 2011) and paying 100 percent of the Shared Costs from the Readiness Fund. In addition, the PC agreed that cost sharing at the 65/35 level should commence from FY12 onward. However, there is an important caveat in Resolution PC/8/2011/8 approved in March 2011, in that the PC agreed to a lifetime cap of \$12 million on the Shared Costs that it will charge to the Carbon Fund. This resolution responded to the concerns of several existing and potential Carbon Fund Participants that an upward limit be placed on such costs given that the PC otherwise makes all decisions regarding their composition and annual approvals.

## 5.2. The Readiness Fund

### 5.2.1. Funding Sources

The Facility continued to grow in financial terms during FY12, with the Readiness Fund receiving donor contributions of \$31.5 million over the past year. Table 1 presents the contributions and public pledges for the Readiness Fund as at the end of FY12. Although total signed Donor Participation Agreements amounted to \$235.4 million, some of the agreements included a phased contribution into the Readiness Fund spread out over a few years.

In FY12, the \$31.5 million received into the Readiness Fund, in addition to the \$181.1 million in cash received in the previous three fiscal years, brought the total cash contributions to the end of FY12 to \$212.6 million. This leaves outstanding commitments of about \$22.8 million from existing signed agreements to be paid into the Readiness Fund in the coming years, in addition to the pledged contribution of \$4 million from the United States for which the agreement was signed in July 2012.

**Table 1: Commitments and Pledges to the Readiness Fund as of June 30, 2012 (in \$ thousands)**

Participant Name	FY09	FY10	FY11	FY12	FY13-16	Total
Australia	9,565		7,997	6,330		23,892
Canada			41,360			41,360
Denmark		5,800				5,800
European Commission				2,688	2,520	5,208
Finland	8,956			5,749		14,705
France	4,612	592		5,136		10,340
Germany			25,956		12,600	38,556
Italy			5,000			5,000
Japan	5,000	5,000		4,000		14,000
Netherlands	5,000			7,635	7,635	20,270
Norway	5,000	16,398	8,801			30,199
Spain	7,048					7,048
Switzerland	8,214					8,214
United Kingdom			5,766			5,766
United States of America	500	4,500				5,000
<b>Committed Funding</b>	<b>53,895</b>	<b>32,290</b>	<b>94,880</b>	<b>31,538</b>	<b>22,755</b>	<b>235,358</b>
United States					4,000	4,000
<b>Committed Funding plus Pledges</b>	<b>53,895</b>	<b>32,290</b>	<b>94,880</b>	<b>31,538</b>	<b>26,755</b>	<b>239,358</b>



## 5.2.2. Funding Uses

**Table 2: FCPF Readiness Fund Annual Expenditures (in \$ thousands)**

Activities	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Revised Budget	FY12 Actual
Readiness Trust Fund Administration	471	362	366	421	356
FCPF Secretariat	988	1,321	1,685	2,588	2,056
REDD Methodology Support	828	1,266	1,921	1,624	999
Country Advisory Services	801	793	545	1,543	1,073
Country Implementation Support	409	1,660	1,904	2,493	1,701
IP and CSO Program				1,020	267
<b>Total Readiness Fund (including Carbon Fund Shared Costs)</b>	<b>3,497</b>	<b>5,402</b>	<b>6,421</b>	<b>9,689</b>	<b>6,452</b>
Less: Carbon Fund Shared Costs				(1,474)	(1,069)
<b>Total Readiness Fund</b>	<b>3,497</b>	<b>5,402</b>	<b>6,421</b>	<b>8,215</b>	<b>5,383</b>

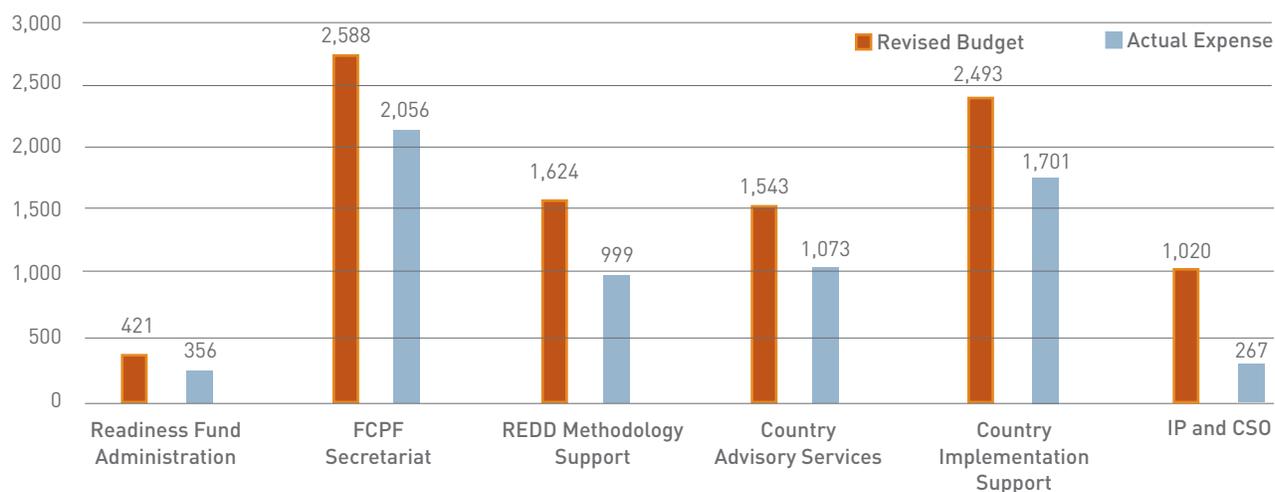
As the FCPF has shifted from startup to implementation phase, annual expenditures have also generally increased, although the sharing of some of the costs with the Carbon Fund in FY12 has resulted in a reduction of actual costs charged to the Readiness Fund. In FY12 the PC approved a somewhat larger budget for operational and administrative support to REDD+, in part to reflect the growing staffing capacity of the FMT, in part to reflect the growing program to support Indigenous Peoples and civil society organizations, and in part to reflect the anticipated use of Delivery Partners other than the World Bank.

Both Table 3 and Figure 6 show a comparison of the FY12 final budget with the actual expenditures by activity on a cash basis. The PC originally approved a budget for the Readiness Fund of \$7.2 million. With the additional budget approved during the year of just over \$1.0 million for the Indigenous Peoples and CSO Capacity Building Program, the final approved budget for the Readiness Fund for FY12 was \$8.2 million. This compared to total Readiness Fund expenditures for the year of \$5.4 million. The fiscal year therefore closed with spending at 66 percent of the revised budget and \$2.8 million unspent. A large share of this underspend related to the special budgetary request for the Indigenous Peoples and CSO Capacity Building Program; this funding has been held over to FY13. These FY12 expenditure figures also do not include some contracts that were issued to support operations of the FCPF but not yet fully

**Table 3: FCPF Readiness Fund Expenditures by Activity (in \$ thousands)**

Activities	Original Budget	Revised Budget	Actual Expense	Variance	Expense Rate
Readiness Trust Fund Administration	421	421	356	65	85%
FCPF Secretariat	2,588	2,588	2,056	532	79%
REDD Methodology Support	1,624	1,624	999	625	62%
Country Advisory Services	1,543	1,543	1,073	470	70%
Country Implementation Support	2,493	2,493	1,701	792	68%
IP and CSO Program		1,020	267	753	26%
<b>Total Readiness Fund (including Carbon Fund Shared Costs)</b>	<b>8,669</b>	<b>9,689</b>	<b>6,452</b>	<b>3,237</b>	<b>67%</b>
Less: Carbon Fund Shared Costs	(1,474)	(1,474)	(1,069)	(405)	73%
<b>Total Readiness Fund</b>	<b>7,195</b>	<b>8,215</b>	<b>5,383</b>	<b>2,832</b>	<b>66%</b>

**Figure 6. FY12 Budget Performance (in \$ thousands)**



expensed (e.g., some of the Indigenous Peoples Program contracts) and funding commitments that were made previously to World Bank country teams supporting Readiness in specific countries but not yet expensed.

As per Table 3, Readiness Fund Administration costs were \$356,000, or about 85 percent of the \$421,000 budgeted in FY12. These costs reflect the work of all World Bank staff involved in fund management, contributions management, accounting, legal, and other services required by the Readiness Fund Trustee.

FCPF Secretariat expenses were \$2.1 million (or 79 percent of budget), compared to the budget of \$2.6 million. Expenditures included the standard costs for program management, organization of the annual Participants Assembly and PC meetings, and travel costs for REDD Country Participants to those meetings. Increasingly, knowledge and learning events on REDD+ and other key partner meetings (e.g., the UN-REDD Programme or REDD+ Partnership) are jointly organized to maximize the use of participant time and to keep costs as low as possible. FCPF Secretariat costs in FY12 also included the costs of the Global Dialogue with Indigenous Peoples held in Panama in September 2011, the costs of hosting and maintaining the FCPF Web site, strengthened communications to FCPF stakeholders, and expanded translation of FCPF materials.

With the budget for REDD+ Methodology Support activities set at \$1.6 million in FY12, and total expenditures at \$1.0 million, this line item saw spending of only 62 percent against FY12 plans. While costs did reflect the expenses of the independent TAPs supporting the FCPF (consulting contracts and travel and meeting costs), the allocated funds for the Carbon Fund TAP on specific topics (e.g., Methodology and Pricing) were not expensed this fiscal year. Spending covered considerable work with other REDD+ institutions (e.g., UN-REDD) to coordinate and develop joint tools, such as the R-PP template, the R-Package, and previously approved programs such as the Indigenous Peoples Capacity Building Program.

The related line item for Country Advisory Services

came to about \$1,073,000, or about 70 percent of the amount originally budgeted in FY12. The majority of these costs came from FMT, forestry, and social development staff advice and guidance to REDD Country Participants on their programs, including development of the R-PPs and SESA and consultation processes, as well as the sharing of cross-country experiences. This increased level of spending (compared to about \$545,000 in FY11) largely reflects the fact that FMT staff worked more closely with REDD+ countries to develop and share guidance and further develop individual country experiences. The underspend of \$470,000 includes approximately \$200,000 in work on benefit sharing that was delayed as well as \$100,000 for feedback on R-PPs that were anticipated but not formally submitted to a PC in FY12.

Costs for Country Implementation Support totaled \$1.701 million, or 68 percent of the planned budget. To date, this line item has reflected the direct assistance of World Bank country teams to REDD Country Participants, including technical assistance, grant supervision, and assessments provided to the PC. While spending and activities were generally on the levels anticipated at the start of FY12, most of the underspend came from an allocation of \$575,000 that was pending the signature of a Transfer Agreement with a Delivery Partner (IDB). That Transfer Agreement was signed in early FY13. Now that agreements are formalized with the new Delivery Partners, the costs of Country Implementation Support will include the costs incurred by partner institutions beyond the World Bank.

### 5.2.3. End of Year Account Balance

In summary, per Table 4, at the close of FY12 the Readiness Fund stood at almost \$190 million. Total new funds into the account totaled about \$32.5 million, including donor contributions of \$31.5 million (see Table 1) and investment income of \$0.9 million earned on the account balance. Total disbursements on a cash basis were \$8.3 million, made up of cash expenditures of \$5.4 million (see Table 3), and grant disbursements of approximately \$2.9 million (see Figure 3 in Section 2).

**Table 4: FY12 Financial Statement for the Readiness Fund (in \$ thousands)**

Item	Amount
Beginning Balance	165,804
Donor Contributions	31,538
Investment Income	924
Total Receipts	32,462
Cash Disbursements	5,383
Grant Disbursements*	2,884
Total Disbursements	8,267
<b>Fund Balance</b>	<b>189,999</b>

\*Includes \$176,850 of Bank-executed grant disbursements.

#### 5.2.4. Readiness Fund Disbursements

An important aspect of the Readiness Fund from its inception has been that it makes available grant funding to countries—the grants are now up to \$3.8 million per REDD Country Participant—in support of country-led Readiness work. The REDD Country Participants manage and utilize the grants for REDD+ activities and expenses, which are counted as disbursements in World Bank financial statements only after the REDD Country Participant completes reimbursement from the grant resources. By the end of FY12, 20 R-PP Formulation grant agreements had been signed, with 17 of them actively disbursing in 2012; seven Readiness Preparation Grants had also been signed. These signed agreements represent firm commitments of approximately \$30 million. Against these signed grants, approximately \$2.9 million in disbursements were fully processed and expensed by REDD Country Participants during the fiscal year (see Figure 3 in Section 2), bringing the total to date to just under \$5.0 million.

#### 5.2.5. Financial Commitments over the Longer Term

Since the term of both funds runs until December 31, 2020 (with Carbon Fund ERPA payments expected to dominate the latter years of financial operations), the annual budgets need to fit into a long-term financial planning framework for each

fund, consistent with World Bank policies for the financial management of trust funds. These policies generally require funds to be fully set aside for commitments made by the participants as well as for meeting the fiduciary obligations entered into by the World Bank as Trustee.

In order to plan resources over this longer-time horizon, the PC issues resolutions from time to time to establish funding priorities and commitments for the coming years. These commitments are considered “notional” when the PC has set aside or allocated financial resources of the Readiness Fund that are not yet signed into formal grant agreements or contracts. They are converted to “full” commitments once the grant agreements (or vendor contracts) are signed by recipients and/or by the World Bank as Trustee of the Readiness Fund.

As noted above, full signed commitments amount to approximately \$30 million. However, there has been a considerably higher level of notional grant commitments made by the FCPF to REDD Country Participants, together with the necessary direct implementation support costs and associated country services costs. Table 5 provides a more complete picture of the level of these notional commitments to REDD Country Participants.

As shown in Table 5, as of the end of FY12 notional commitments of full grants and the estimated associated country services to 36 countries amount to approximately \$178 million.

Total committed and pledged funding to the Readiness Fund as of June 30, 2012, is approximately \$239 million (see Table 1). This level of funding is adequate to meet the notional commitments of full Readiness Preparation Grants of up to \$3.8 million to all 36 selected REDD Country Participants (Equatorial Guinea has not signed a Participation Agreement), together with the costs of the estimated associated country services for those 36 countries.

In addition to the notional commitments shown in Table 5, the long-term financial plan includes reserves for the operation of the Secretariat by the FMT and the trustee role of the World Bank over the full term of the Fund—reflecting the fact that the Facility is expected to be fully active through that time, even when the Carbon Fund is supporting programs in select REDD Country Participants and making ERPA payments. A regularly updated long-term financial plan was presented to the PC in June 2012

**Table 5: Readiness Funds Notionally Committed to Grants and Associated Services for REDD Country Participants (as of June 30, 2012)**

Grants and Country Services	Notional Commitments		
	Amount per Country (US\$ millions)	Number	Total (US\$ millions)
Full Support through Readiness Package			
Preparation Grants (up to US\$3.6m)	3,800	36	133.0
Direct Implementation Support	650	36	23.4
Associated Country Services*		36	22.0
<b>Total Notional Commitments to Grants and Country Services</b>		<b>36</b>	<b>178.4</b>

\*Associated Country Services comprise an average per country share of REDD Methodology Support and Country Advisory Services.



as required to provide the necessary financial big picture to aid strategic decision making for the fund. That financial plan showed a surplus over the term of the fund, after taking into account all the notional commitments, of \$31.1 million.

During FY12, the PC also approved access for REDD Country Participants to up to \$5 million in additional grant funding for countries that showed good progress. The PC will take into account these possible additional grants and the surplus at that time when considering the future strategic direction of the fund at PC14 in March 2013.

### 5.3. The Carbon Fund

#### 5.3.1. Funding Sources

Table 6 shows that contributions and pledges to the Carbon Fund through FY12 amounted to \$218.4 million. This includes fully committed funding (signed Participation Agreements) as

of June 30, 2012, of \$214.4 million, in addition to the pledged contribution of \$4 million from the United States (for which the agreement was signed in July 2012).

#### 5.3.2. Funding Uses

With the Carbon Fund only becoming fully operational in May 2011, the first budget approval of the Carbon Fund Participants took place, along with initial planning for the future directions of the Fund, at the Organizational Meeting of the Carbon Fund in late May/early June 2011. Table 7 shows that first budget and the costs to date of the Carbon Fund.

The FY12 expenditure of \$1.5 million is in contrast to the budgeted expenditure of \$2.1 million. This expenditure comprises almost \$1.1 million for Shared Costs (see Readiness Fund for details) and \$470,000 for Administration and other costs as detailed in Table 7.

**Table 6: Commitments and Pledges to the Carbon Fund as of June 30, 2012 (in \$ thousands)**

Participant Name	FY09	FY10	FY11	FY12	FY13-16	Total
Australia			12,735	5,658		18,393
BP Technology Ventures			5,000			5,000
Canada				5,015		5,015
CDC Climat			5,000			5,000
European Commission	6,347	362				6,709
Germany	4,009	3,819	21,125	15,443	25,200	69,596
Norway	10,000				51,000	61,000
Switzerland				10,796		10,796
The Nature Conservancy	5,000					5,000
United Kingdom			17,940			17,940
United States of America			10,000			10,000
Committed Funding	25,356	4,181	71,800	36,912	76,200	214,449
United States of America					4,000	4,000
<b>Committed Funding plus Pledges</b>	<b>25,356</b>	<b>4,181</b>	<b>71,800</b>	<b>36,912</b>	<b>80,200</b>	<b>218,449</b>

**Table 7: FCPF Carbon Fund Annual Expenditures (in \$ thousands)**

	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Budget	FY12 Actual
Shared Costs (paid by the Readiness Fund)*	635	1,728	1,262		
Shared Costs (paid by the Carbon Fund)**				1,474	1,069
Carbon Fund Administration		183	366	490	286
Marketing to Private Sector				45	1
Meeting Logistics				50	183
Program Development				60	
<b>Total Carbon Fund Costs</b>		<b>183</b>	<b>366</b>	<b>2,119</b>	<b>1,539</b>

\*Per PC Resolutions: PC/3/2009/6, PC/6/2010/8, PC/9/2011/4 and not included in Total Carbon Fund Costs.

\*\*Per PC Resolutions: PC/9/2011/4.



### 5.3.3. End of Year Account Balance

Table 8 shows the summary financial statement from the opening of the fund to the end of FY11. The balance of the fund at the end of FY11 was almost \$86.4 million.

**Table 8: FY09-FY11 Financial Statement for the Carbon Fund (in \$ thousands)**

Item	Amount
Beginning Balance	
Donor Contributions FY09-FY11	101,337
less Promissory Note balances	(15,000)
Investment Income FY09-FY11	602
Total Receipts FY09-FY11	86,939
Cash Disbursements FY09-FY11	549
<b>Fund Balance</b>	<b>86,390</b>

**Table 9: FY12 Financial Statement for the Carbon Fund (in \$ thousands)**

Item	Amount
Beginning Balance	86,390
Donor Contributions	36,912
Investment Income	520
Total Receipts	37,432
Cash Disbursements	1,539
<b>Fund Balance</b>	<b>122,283</b>

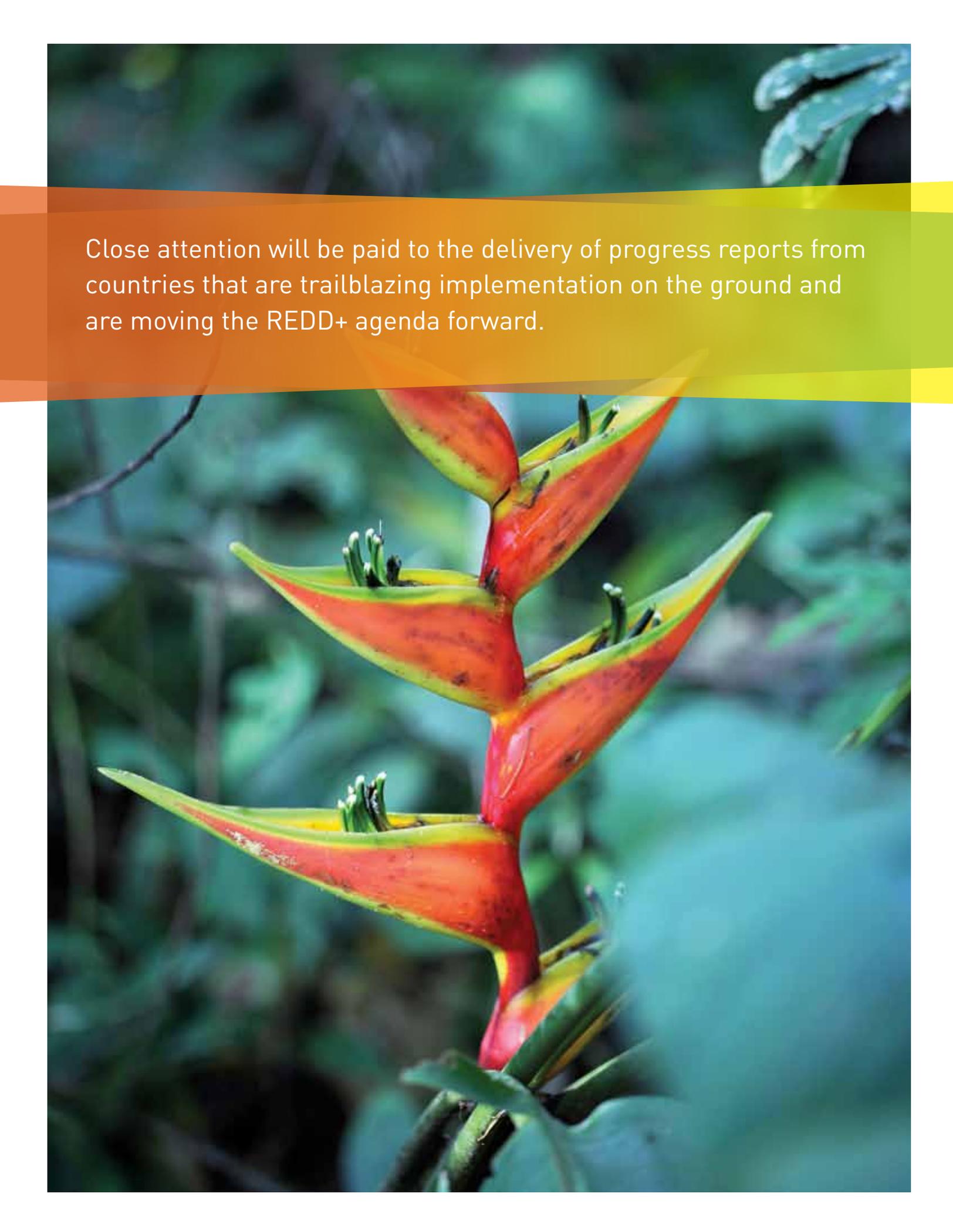
Table 9 shows the summary financial statement for FY12, with a beginning balance at the end of FY11 of almost \$86.4 million. At the close of FY12 the balance of the Carbon Fund stood at almost \$122.3 million. Total new funds into the account during FY12 totaled \$37.4 million, including donor contributions of \$36.9 million (see Table 6) and \$0.5 million in investment income earned on the account balance. Expenditures on a cash basis totaled \$1.5 million (see Table 7).

### 5.3.4. Financial Commitments over the Longer Term

As outlined in section 5.2.5., since the term of both funds runs until December 31, 2020 (with Carbon Fund ERPA payments expected to dominate the latter years of financial operations), the annual budgets need to fit into a long-term financial planning framework for each fund that is consistent with World Bank policies for the financial management of trust funds. These policies generally require funds to be fully set aside for commitments made by the participants as well as for meeting the fiduciary obligations entered into by the World Bank as Trustee. The latest long-term financial plan was presented to the Carbon Fund Participants at CF2 in October 2011, at which

time it was estimated that approximately \$180 million would be available for the purchase of emission reductions from about five Emission Reductions Programs.





Close attention will be paid to the delivery of progress reports from countries that are trailblazing implementation on the ground and are moving the REDD+ agenda forward.

## Conclusions and Outlook

FY2012 was an important year for the Forest Carbon Partnership Facility as implementation on the ground gained significant momentum and financial disbursements of the FCPF Readiness Fund accelerated. With more and more REDD Country Participants progressing from R-PP formulation to R-PP implementation, the attention of the FCPF shifted to measuring progress toward REDD+ Readiness. Accordingly, the design of the Readiness Package, a document to be generated by a REDD+ country toward the end of its Readiness preparation phase, was substantially advanced during FY12. In parallel, much progress was made toward defining the framework for future performance-based payments under the Carbon Fund. As the Carbon Fund gets ready to accept the first ideas for Emission Reductions Programs in FY13, the selection criteria for building a pipeline of program ideas were agreed upon, together with the overarching methodological (accounting and programmatic) and pricing elements to govern the future programs.

Four years into FCPF operation, the emphasis of the Participants Committee and participating countries now lies on the technical, institutional, policy, and financial elements of REDD+. Country representatives in particular have progressed on a steep learning curve, and many have become REDD+ experts in their own right who are now challenging the Facility to increasingly focus on substance through a highly advanced technical discourse.

Moving forward into FY13, close attention will be paid to the delivery of progress reports from countries that are trailblazing implementation on the ground and are moving the REDD+ agenda forward. These pioneer countries are starting to learn important lessons from early implementation, and it will be the role and responsibility of the FCPF to ensure that these lessons and experiences are systematically captured and widely disseminated to facilitate learning and accelerate progress on REDD+ Readiness in countries that are following in the footsteps of the early implementers.

Progress reports should further provide valuable insights for fine-tuning criteria and benchmarks for REDD+ Readiness, as the first midterm reports provide some answers on how REDD+ Readiness can be measured.

FY13 should also provide for an uptick in grant commitments as multiple countries advance either to accessing grant funding for REDD+ Readiness preparation (\$3.8 million) or to accessing additional grant funding (up to \$5 million). The latter can be requested by countries that have demonstrated significant progress in REDD+ Readiness preparation in accordance with the resolutions from PC10 and PC12.

The expansion of the FCPF to multiple Delivery Partners will become effective in FY13 with the signature of Transfer Agreements with IDB and UNDP. As a result, the FCPF will deliver support services more effectively in some of the REDD Country Participants in which the World Bank currently has no program or finances no forest sector operations. This means that technical assistance services – a key benefit that countries receive from the Facility – can be extended to a larger group of REDD Country Participants. Special attention will also turn in FY13 to developing assessment criteria for the R-Package and to the emerging pipeline of the FCPF Carbon Fund. It is anticipated that the first program will enter the fund's pipeline and that countries will further develop their early ideas for large-scale programs aimed at reducing forest emissions while also delivering environmental and social benefits.

The next few years will show whether overall momentum can be sustained to address the more challenging aspects of REDD+ and eventually determine whether REDD+ can accomplish its objectives on the ground. As REDD+ Readiness activities continue to advance, we will learn: i) whether there is sufficient political willingness and capacity to tackle critical governance issues; ii) whether important policy and legal reforms in land management can be advanced; iii) whether and how cross-sectoral land-use planning will consider economic, environmental, and social trade-offs; and iv) whether benefit-sharing arrangements can succeed in channeling incentive payments to those stakeholders who are most critical for protecting forests.





# Acknowledgments

## Photo Credits

All photos courtesy of the World Bank Photo Library/Rhett A. Butler unless otherwise noted.

Additional photos provided by:

Ole Doetinchem (pages 6 and 42)

Carolina Hoyos Lievano (page 40)

Kyle O'Donoghue (cover, inside cover, pages 15, 19, 20, 26 and 28)

Flickr: (pages 8, 32, 38)

Design by Corporate Visions, Inc.



**Carbon Finance**  
AT THE WORLD BANK

**Carbon Finance Unit**  
The World Bank  
1818 H Street, NW  
Washington, DC 20433, USA

[www.carbonfinance.org](http://www.carbonfinance.org)  
[www.forestcarbonpartnership.org](http://www.forestcarbonpartnership.org)

