



FOREST CARBON PARTNERSHIP

F A C I L I T Y

Demonstrating activities that reduce emissions
from deforestation and forest degradation

The Forest Carbon Partnership Facility assists developing countries in their efforts to reduce emissions from deforestation and forest degradation—called REDD—by providing value to standing forests.



1. Rethinking Forests

It is a blunt reality. Time is running out for the world's forests. Tropical forests have existed for more than 100 million years. Now huge tracts of these ancient landmarks may disappear forever within our children's lifetime. Today, day in and day out, forests, particularly in the tropics, are disappearing at an alarming rate. Every year about 13 million hectares are lost to deforestation, adding up to an area the size of entire countries. Cut...burned...slashed—they are being destroyed for profit...for pastures...for livelihoods...for survival.

Combating the destruction of forests has been on the international community's agenda for the past three decades. However, little progress has been made so far in reversing deforestation trends in most tropical and subtropical countries. Pressures on tropical forests are likely to intensify with continued large-scale conversion of forests into croplands and pastures, and with continued over-harvesting through activities such as logging and collection for fuelwood.

The value of forests: much more than the sum of their parts

Forests play a crucial role in the lives of many of the poor on the planet as well as forest-dependent indigenous peoples. Many of the countries that account for the highest percentage of global forest cover are also among the poorest in the world. Forests are home to 300 million people around the world—at least 100 million are indigenous peoples who are almost entirely dependent on forests to live. Another 800 million rural people who live in or around tropical forests and savannas rely on them for fuel, food or subsistence income. In many countries deforestation is one of the major factors leading to depletion of water resources and degradation of water quality.



Photos: Rhett A. Butler

Tropical forests cover only 6% of the surface of the earth, yet are home to more than half the species on earth. One-quarter of pharmaceutical drugs come from rainforest plants.

Deforestation and forest degradation and their impact on climate

Deforestation and forest degradation are the second leading cause of global warming, responsible for about 20% of global greenhouse gas emissions, which makes the loss and depletion of forests a major issue for climate change. In some countries, such as Brazil and Indonesia, deforestation and forest degradation together are by far the main source of national greenhouse gas emissions. Eighty percent of the Earth's above-ground terrestrial carbon and 40% of below-ground terrestrial carbon is in forests. In addition to the large contribution of deforestation and forest degradation to global emissions, combating both has been identified as one of the most cost-effective ways to lower emissions.

Currently, there appears to be a consensus that the issue of deforestation and forest degradation must be effectively tackled as it would otherwise limit the options available to reduce greenhouse gas emissions, greenhouse gas concentrations and increases in temperature to acceptable levels. Any reduction in the rate of deforestation and forest degradation has the benefit of avoiding a significant source of carbon emissions and reducing other environmental and social problems associated with deforestation.

Unlike afforestation and reforestation activities, which generally cause small annual changes in carbon stocks over long periods of time, stemming deforestation causes large changes in carbon stocks over a short period of time. Most emissions from deforestation take place rapidly, whereas carbon removal from the atmosphere through afforestation and reforestation activities is a slow process. While the accumulation of significant carbon stocks through afforestation and reforestation may take a long time, avoidance of deforestation and forest degradation immediately reduces a large amount of emissions.

Making standing forests a priority

In addition to mitigating climate change, stopping deforestation and forest degradation and supporting sustainable forest management conserves water resources and prevents flooding, reduces run-off, controls soil erosion, reduces river siltation, protects fisheries and investments in hydropower facilities, preserves biodiversity and preserves cultures and traditions. With all that at stake it is clear what has to happen. With all the services that forests provide both to humanity and the natural world, there is now widespread understanding of a simple yet profound fact—that forests are more important left standing, than cut. Out of that understanding has come the Forest Carbon Partnership Facility (FCPF).

2 Creating a Forest Carbon Partnership

Background on the FCPF

Developing and industrialized countries asked the World Bank to develop a facility for demonstrating activities that reduce greenhouse gas emissions from deforestation and forest degradation in developing countries (REDD).

In response, in the summer of 2006, the World Bank began consultations on a proposed initiative with a number of countries and organizations, including environmental NGOs. These consultations highlighted the value of developing the facility in partnership with a broad range of actors—an approach that can balance the interests of potential donors and buyers, recipients and sellers and other stakeholders.

The discussions gained momentum in June 2007, with the G8 summit in Heiligendamm, Germany. As part of the preparations for the summit, the G8 began a high-level dialogue with developing countries on reducing emissions from tropical deforestation. The Summit Declaration supported the World Bank's endeavor to form a global forest carbon partnership: "The World Bank, in close cooperation with the G8, developing countries, the private sector, NGOs and other partners, [is encouraged] to develop and implement such a forest carbon partnership as soon as possible."

The FCPF was launched at the 13th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in Bali, and became operational in June 2008. As of April 2009, 37 countries from Africa, Asia-Pacific and Latin America are participating in the FCPF, and 13 donors or contributors from both the public and private sectors are supporting the FCPF financially.



Photos: Rhett A. Butler

The role of the World Bank

The World Bank can play a critical role in assisting developing countries by providing access to new funding, including private capital, to tackle deforestation and forest degradation and promote sustainable development. The World Bank Group has demonstrated its commitment to protecting the world's forests through an active lending program that has grown steadily from US\$53 million in fiscal year 2004 to US\$224 million in fiscal year 2008. Other relevant World Bank initiatives include the Forest Investment Program, now in the design process, in addition to a large number of carbon finance projects that focus on land use, land-use change and forestry.

The World Bank has considerable experience in designing pilot activities that pioneer carbon finance, attracting private and public monies to capitalize carbon funds and creating new carbon assets. The Prototype Carbon Fund (PCF) began operations in 2000—well before the Kyoto Protocol came into force—with US\$180 million in capital and the participation of seventeen companies and six governments. Subsequently, the Bank continued to contribute new methodologies and approaches to carbon emission reductions through the bottom-up procedures of the Clean Development Mechanism (CDM) of the Kyoto Protocol. The Community Development Carbon Fund (CDCF) has, for example, been implementing carbon finance projects with specific community and poverty reduction outcomes in which carbon finance is used to leverage the concept of output-based aid.

Over the past nine years, carbon finance activities at the Bank have grown to include 11 carbon funds and facilities with a total capitalization of over US\$2.3 billion. These funds cater predominantly to parties seeking to comply with obligations in the first Kyoto commitment period (2008–2012).

One of these funds, the BioCarbon Fund (BioCF), has been pioneering afforestation and reforestation activities under the Kyoto Protocol at the project scale, including new baseline and monitoring methodologies for calculating carbon sequestration and new approaches to development benefits for rural populations. The BioCF has also acquired experience beyond Kyoto with forest protection activities generating emission reductions at the project level, currently financing three pilot projects in Colombia, Honduras and Madagascar (see Box 1). The BioCF has developed a specific methodology for REDD projects, peer-reviewed by world experts in forestry. The FCPF builds on the BioCF experience for its future operations, but scales up to the national level in its approach, in order to address concerns about leakage from individual projects and to address economy-wide drivers of deforestation and forest degradation. In addition, the FCPF supports countries in “docking” their forest protection projects to a national monitoring, reporting and verification system for REDD.



Photo: Rhett A. Butler



Box 1: Madagascar's experience with REDD

Madagascar has been testing a number of REDD projects on the ground. The Ankeniheny-Zahamena Corridor Project is situated in the Eastern part of Madagascar, connecting protected areas that harbor the remaining core of the Malagasy rainforest. The project is conducting ecological restoration and forest protection activities, including through the promotion of alternative livelihood activities. Funding for the implementation of the project is provided by the Government of Madagascar, the International Development Association, USAID and Conservation International. By reducing deforestation, the project expects to sell emission reductions in the voluntary markets, as a sustainability strategy for the promotion of the alternative livelihood activities and the management of the protected area. The BioCarbon Fund is supporting this innovative reforestation and REDD initiative by purchasing a percentage of the emission reductions it will generate until 2017 and by providing technical assistance to the government.

Madagascar hosts several other forest carbon projects including forest protection activities similar to the Ankeniheny-Zahamena Corridor Project with other technical and financial partners.

3. What is the FCPF?

The Forest Carbon Partnership Facility is designed to set the stage for a large-scale system of incentives for reducing emissions from deforestation and forest degradation in developing countries, providing a fresh source of financing for the sustainable use of forest resources and biodiversity conservation, and for the more than 1.2 billion people who depend to varying degrees on forests for their livelihoods.

The Forest Carbon Partnership Facility builds the capacity of developing countries in tropical and subtropical regions to reduce emissions from deforestation and forest degradation and to tap into any future system of positive incentives for REDD. In some of these countries, the FCPF will also help reduce the rate of deforestation and forest degradation by providing an incentive per ton of carbon dioxide of emissions reduced through specific Emission Reductions Programs targeting the drivers of deforestation and forest degradation.

Two mechanisms

The FCPF consists of two separate mechanisms, each with its own trust fund for which the World Bank acts as Trustee:

The Readiness Mechanism is assisting 37 tropical and sub-tropical developing countries in preparing themselves to participate in a future, large-scale, system of positive incentives for REDD. This includes: (i) preparing a REDD strategy and/or complementing the country's existing strategy and policy framework for forest and environmental management, including answering questions of carbon ownership and benefit-sharing mechanisms; (ii) establishing a reference scenario for emissions from deforestation and/or forest degradation, based on recent historical emissions and, possibly, an assessment of future emissions. The reference scenario is the reference against which countries will reduce emissions; and (iii) establishing a national monitoring, reporting and verification system for emissions and emission reductions to calculate the reductions in emissions against the reference scenario.

Each country participating in the FCPF is addressing the challenges of deforestation and forest degradation in its own way and contributing valuable experience to the partnership. In this way the FCPF is maximizing its learning value, by testing various approaches.

This experience is widely shared with the participants and with the global community through the FCPF website (www.forestcarbonpartnership.org), knowledge exchange sessions and international events. A program evaluation is also planned for 2010. The FCPF may foster South-South partnerships and knowledge exchange (see Box 2).

REDD strategies are designed to set the framework for real and verifiable emission reductions. Emission reductions often require basic reforms and investments in the forest sector and other sectors influencing the use of forests. The realization that these reforms and investments are necessary is not new. What is new is that there may now be a source of long-term revenue to finance these programs, which may benefit countries, provinces, forest peoples and private companies.

The first step for interested countries was to submit a "Readiness Plan Idea Note" to the FCPF. The Readiness Plan Idea Notes were reviewed by the FCPF's governing body (see more details on the governance structure in Chapter 4), based on which the 37 countries were selected into the partnership.

The next step is for the selected countries to prepare their Readiness Plan. The Readiness Plan provides a framework for a country to set a clear plan, budget and schedule to achieve "REDD Readiness" to undertake REDD activities, in the specific country context. The Plan enables a country to develop and implement a common vision of the role of REDD in national development, which is shared by high levels of national and sub-national government, civil society, land users and other stakeholders.

Box 2 – South-South Cooperation in the Readiness Mechanism

The Readiness Mechanism opens up new possibilities of South-South cooperation. Tropical countries with developed technologies to measure forest cover might provide technical assistance to other countries. Countries in the Amazon Basin, Central America, the Mekong Basin or the Congo Basin, for instance, could potentially benefit from regional monitoring schemes and from technical assistance from countries with more experience in the area of monitoring forest cover change. Civil society groups from different developing countries may also exchange information on how to engage forest-dependent communities and indigenous peoples in decision-making, or on how to pilot REDD-related initiatives, such as independent community forest monitoring.





Photo: Rhett A. Butler

The partnership's governing body reviews and assesses Readiness Plans, and on that basis decides on the allocation of FCPF grants to countries.

Readiness activities must involve a high degree of consultation with civil society and indigenous peoples organizations. The national REDD strategy design must itself be rooted in a broad-based consultative process, where civil society, indigenous peoples organizations and the private sector is represented. Given the historical role of indigenous peoples and other forest dwellers as stewards of tropical forests, it is critical that governments set up participatory mechanisms to ensure that they be meaningfully consulted during the formulation and implementation of their country's Readiness Plan and REDD Strategy and that they benefit from capacity building and future financial incentives.

To enhance such consultation and participation, the FCPF also supports a capacity building program that specifically targets forest-dependent indigenous peoples and other forest dwellers, to strengthen their understanding of climate change and the technicalities of REDD. Through activities such as training workshops, conferences and dissemination of reports and other information, the capacity building program aims to enable indigenous peoples and other forest dwellers to play a more meaningful role in the design and implementation of REDD programs in their respective countries, and to engage more effectively in, and contribute to, the international discussions on REDD. Such strengthened consultation and participation also helps to publicize and increase understanding of indigenous peoples and other forest dwellers' views and potential contributions to REDD system design and implementation. Indigenous knowledge about forests may prove very useful to the national monitoring, reporting and verification systems that will be set up, while the indigenous peoples' presence on the ground could be a key element of the enforcement mechanisms that will be necessary in the course of REDD program implementation.

As of April 2009, three indigenous peoples and forest dwellers' organizations are organizing capacity building activities in their communities and regions with support from the FCPF:

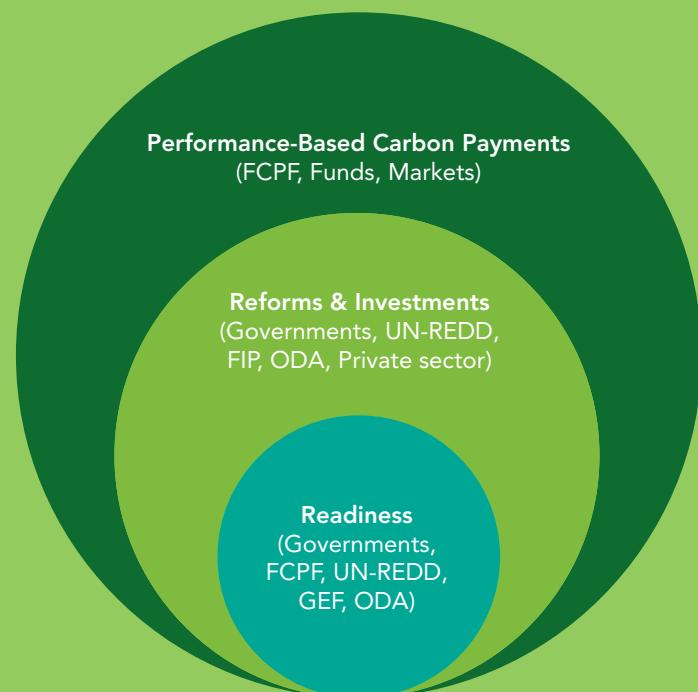
- Coordinadora de las Organizaciones Indígenas de la Cuenca Amazónica (COICA, in Amazonia);
- Indigenous Peoples of Africa Co-ordinating Committee (IPACC, in Africa); and
- Instituto de Investigación y Desarrollo de Kuna Yala (IIDKY, in Panama).

Carbon Finance Mechanism. A few countries that will have successfully participated in the Readiness Mechanism may be selected, on a voluntary basis, to participate in the Carbon Finance Mechanism (or "Carbon Fund"), through which the FCPF will pilot incentive payments for REDD policies and measures in approximately five developing countries. The Carbon Fund will remunerate the selected countries in accordance with negotiated contracts for verifiably reducing emissions more than in the reference scenario. The Carbon Fund's payments are intended to provide an incentive to the recipient countries and the various stakeholders—including forest-dependent indigenous peoples, other forest dwellers or the private sector—within each of these countries, to achieve long-term sustainability in financing forest conservation and management programs.

Box 3 – The Three Phases of REDD Financing

Beyond REDD readiness and before large-scale performance-based payments can be expected to occur, most forest countries will need to adopt a number of policy reforms and/or undertake a series of investment programs. Investments may be needed to build institutional capacity, improve forest governance and information, scale up conservation and sustainable management of forests, and relieve pressure on forests through, for example, relocation of agribusiness activities away from forests and onto degraded lands, or improvements in agricultural productivity. Such investments may require significant financial resources. To respond to this challenge, several initiatives are under design, including the proposed Forest Investment Program (FIP) under the Climate Investment Funds, as well as REDD bonds. In addition, the UN-REDD Programme, the Global Environment Facility (GEF) and traditional Official Development Assistance (ODA), without forgetting the governments' own resources, would finance the necessary policies and investments.

The resulting REDD financing package consists of three phases: (i) readiness, (ii) reforms and investments, and (iii) performance-based carbon payments.



This would help reduce the negative impact on the global climate from the loss and impoverishment of forests.

To be successful, the FCPF will strive to channel incentive payments where they are needed. In some cases, forest-dependent indigenous peoples and other forest dwellers or the private sector will participate in the Emission Reductions Programs included in the Carbon Fund's portfolio and will receive revenues from the sale of emission reductions from REDD. In all cases, the national government will be central to the commitment to reduce emissions. How the revenues from carbon payments are to be shared is a question for each country to address in the context of its work on REDD readiness (as part of its REDD implementation framework in particular). The Emission Reductions Programs will thus build on, and test, the systems established in the readiness phase.

Emission reductions from REDD will vary. Some may offer, in addition to climate change mitigation benefits, a range of 'co-benefits', in particular for local people and the local environment. How the FCPF may help create, monitor and value co-benefits is a matter for the FCPF Participants to determine. It is recognized that the FCPF is, first and foremost, a climate change mitigation instrument. However, REDD programs must be designed to avoid any harm to local people and the environment and, where feasible, to improve livelihoods and improve the local environment. For example, REDD activities can enhance biological diversity by protecting and restoring natural habitat, and preserve or improve livelihoods for local communities by securing customary property or user rights to their forest land and their land's timber and non-timber forest products.

The Carbon Finance Mechanism will test some of the approaches envisioned in the REDD strategies. A variety of approaches will be considered for financing and testing in different countries—for example, macro policy and legal reforms in forest conservation and management and/or land-use strategies, payments for environmental services, establishment of parks and reserves and intensification of agriculture, among others.

Payments will only be made to countries that achieve measurable and verifiable emission reductions, though upfront payments could be made under certain circumstances. Emission reductions will be independently verified.

Together, these two mechanisms—both the Readiness Mechanism and the Carbon Finance Mechanism—seek to create an enabling environment and collect a body of knowledge and experience that could facilitate much larger financial flows for REDD over the medium term (5-10 years).



Photos: Rhett A. Butler

4 Who is the FCPF?

The FCPF brings together the following categories of participants:

- REDD Country Participants from tropical and subtropical regions of the globe, which are members of the International Development Association (IDA) or International Bank for Reconstruction and Development (IBRD, the World Bank), located between the 35th parallel of latitude north and 35th parallel of latitude south;
- Donor Participants, which are governments and private or public entities making the minimum financial contribution to the Readiness Fund; and
- Carbon Fund Participants, which are governments and private or public entities making the minimum financial contribution to the Carbon Fund .

These Participants elect a Participants Committee, which meets three times a year and makes the main decisions for the FCPF. The Participants Committee serves for a term of one year, and consists of 10 members selected by REDD Country Participants and 10 members selected jointly by the Donor Participants and Carbon Fund Participants at the time of an annual Participants Assembly meeting.

In addition, the meetings of the FCPF include Observers from forest-dependent indigenous peoples and other forest dwellers, international organizations, the UNFCCC Secretariat, the UN-REDD Programme, non-governmental organizations and non-contributing private sector entities. These Observers participate in all the meetings and have full access to information in the same way as the Participants.

The FCPF establishes a number of ad hoc Technical Advisory Panels made up of individual experts to advise the FCPF governance bodies on specific issues—including the review of Readiness Plans—and to provide technical assistance in REDD-related fields.

The World Bank is the Trustee of the Readiness Fund and the Carbon Fund and provides secretariat services through a Facility Management Team. It ensures that FCPF operations comply with applicable policies in the areas of safeguards, procurement and financial management.

REDD COUNTRY PARTICIPANTS

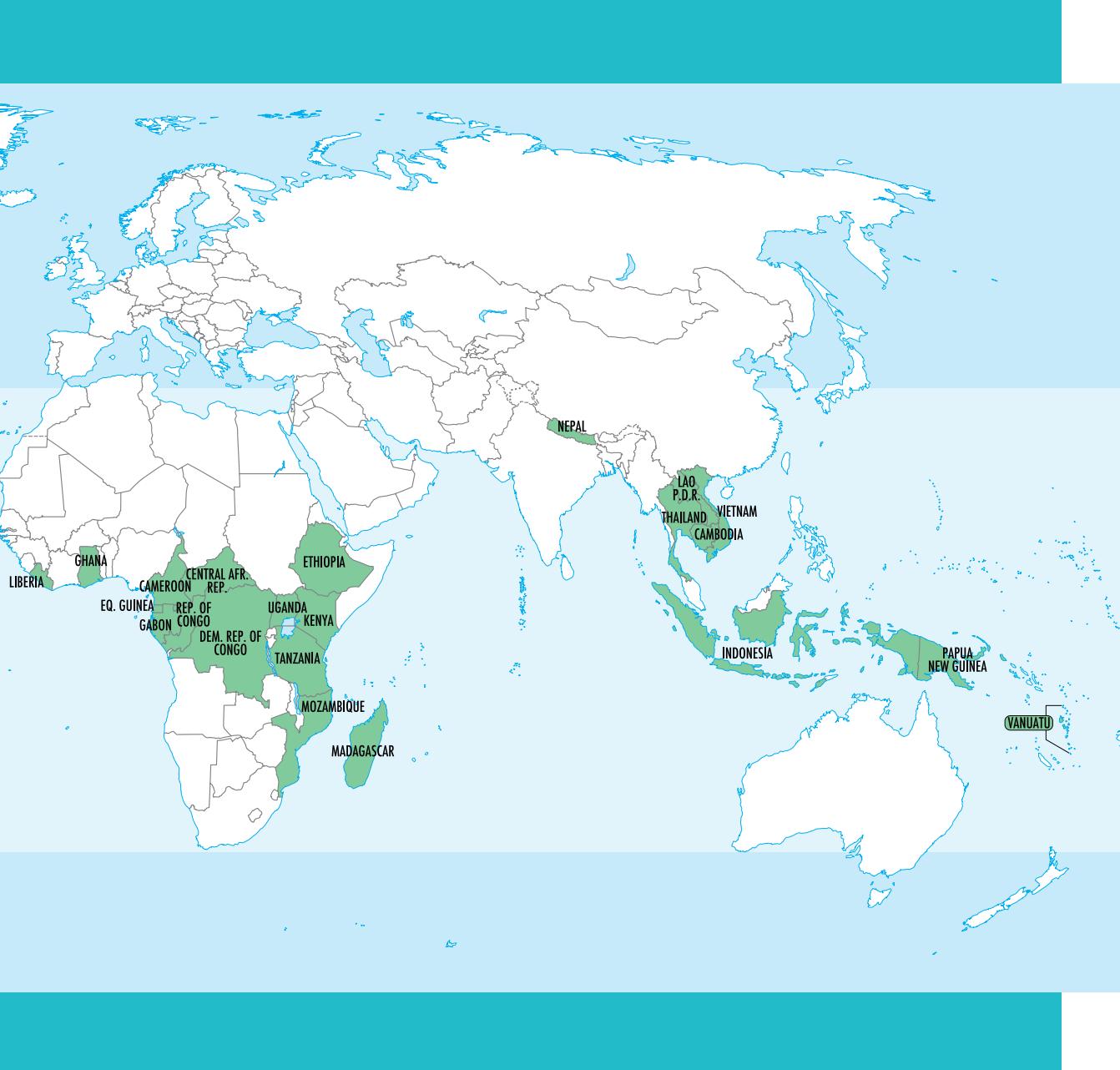
Argentina	Gabon	Nicaragua
Bolivia	Ghana	Panama
Cambodia	Guatemala	Papua New Guinea
Cameroon	Guyana	Paraguay
Central African Rep.	Honduras	Peru
Chile	Indonesia	Suriname
Colombia	Kenya	Tanzania
Congo, D.R. of	Lao P.D.R.	Thailand
Congo, Rep. of	Liberia	Uganda
Costa Rica	Madagascar	Vanuatu
El Salvador	Mexico	Vietnam
Equatorial Guinea	Mozambique	
Ethiopia	Nepal	

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REDD Country Recipients.
The 37 tropical and sub-tropical developing countries thus far selected by the Participants Committee of the Forest Carbon Partnership Facility to be assisted in their efforts to reduce emissions from deforestation and degradation—called REDD—by providing value to standing forests.





FINANCIAL CONTRIBUTORS TO THE FCPF

Governments and private or public entities making financial contributions to the FCPF Readiness Fund and/or Carbon Fund as of April 2009 include:

Agence Française de Développement (AFD)

European Commission

Government of Australia

Government of Finland

Government of Germany

Government of Japan

Government of the Netherlands

Government of Norway

Government of Spain

Government of Switzerland

Government of the United Kingdom

Government of the United States of America

The Nature Conservancy

5. Operating Principles of the FCPF

Targeted capitalization of the FCPF

Contributions to the Readiness Fund of at least US\$5 million per participant come from governments and other public and private entities. The target size of the Readiness Fund was US\$150 million, but with more countries selected into the FCPF than originally anticipated due to high interest, that number has increased to US\$185 million.

Contributions to the Carbon Fund of at least US\$5 million per participant come from governments and other public and private entities. The target size of the Carbon Fund is US\$200 million.

Principles

The FCPF rests on a number of principles:

- **South-North Partnership**

The FCPF is a partnership, which is translated into an equal role for developing and industrialized countries in the FCPF's governance structure. The partnership arises from the recognition that it takes effective collaboration between developing and industrialized countries to substantially and sustainably reduce emissions from deforestation and forest degradation.

- **Learning-by-doing**

The FCPF focuses on a promising but yet-untested incentive system currently being negotiated under the UNFCCC. The Facility is designed to test various ways of reducing deforestation and forest degradation based on national circumstances. Various interventions will also be piloted, from policy reforms to on-the-ground investments. Different incentive models will be used.



Photos: Rhett A. Butler

Similarly, several approaches to the estimation of past and future emissions will be tested. Each REDD country will innovate and contribute to the learning of all. A common principle underlies these various approaches—namely that REDD must result in real, measurable and long-term benefits related to the mitigation of climate change.

- **Integration**

The FCPF supports activities that are fully consistent with, and integrate into, the existing set of policies and measures in the forest sector. Support is designed and delivered in a framework that is aligned with and integrated into national forest and agriculture sector strategies and related donor assistance at the country and regional levels. The FCPF also aims to develop synergies with other relevant international policy processes, including the Global Environment Facility, the UN Forum on Forests which will consider future funding mechanisms in support of conservation and sustainable management of tropical forests, and the UN Convention on Biological Diversity. Financially, the FCPF complements the resources already allocated to these policies and measures. Carbon finance, by virtue of its system of recurrent performance-based payments, is expected to make the programs that were initiated using traditional sources of finance, more sustainable. The FCPF complies with the applicable World Bank safeguard policies, and is inclusive of all the stakeholders and rights-holders in the forest sector.

- **Sovereignty**

The FCPF respects sovereign country decisions in terms of the kinds of mechanisms and strategies that are tested in each country to tackle deforestation and forest degradation. Regime neutrality is also essential for the FCPF to avoid pre-empting the next climate regime in any way. This principle also enables the FCPF to respond to the evolving understanding of REDD in the UNFCCC process.

- **National approach**

The FCPF assists interested countries in establishing a national accounting framework and a national reference scenario for emissions from deforestation and forest degradation. A national approach to REDD is necessary to mitigate the risk of “leakage” of carbon emission reduction benefits within a country, and also addresses nation-wide drivers of deforestation and forest degradation. This national approach does not preclude implementation of sub-national programs and projects, but these would need to be linked to the national accounting and reference scenario. How to implement such a linkage or “docking” is an important contribution of the FCPF.

- **Beyond climate change mitigation**

By addressing the drivers of deforestation and forest degradation, the FCPF is expected to achieve benefits that go beyond climate change mitigation, including poverty reduction and biodiversity promotion. To the extent possible, REDD activities should be planned to increase these benefits and the resulting improvements will be documented. The conservation of forest ecosystems will also enhance the ecosystems’ and the forest communities’ resilience in the face of climate change.

6 FCPF and the UNFCCC Discussions

The FCPF does not pre-empt international negotiations on whether and how to include REDD in the post-2012 international climate change regime. Instead, the FCPF provides practical insights and knowledge generated from the FCPF's methodological, pilot implementation and carbon finance experience to all interested entities. In-depth consultations with Parties to the UNFCCC and with the UNFCCC Secretariat were conducted, which informed the design of the FCPF and encouraged the World Bank to proceed with the Facility. As discussed earlier, the FCPF is based on the principle of 'regime neutrality,' and is designed to produce 'real life' experience with REDD, which Parties to the UNFCCC may wish to utilize as they discuss a post-2012 climate change regime. The FCPF seeks guidance from the UNFCCC and the Intergovernmental Panel on Climate Change (IPCC) as their activities continue to evolve, and seeks to align itself with emerging UNFCCC rules and modalities.

The ultimate aim of course is for the FCPF to assist developing countries in their efforts to reduce emissions from deforestation and forest degradation, by providing value to standing forests.



Photo: Rhett A. Butler



FOREST CARBON PARTNERSHIP FACILITY

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