

# TECHNICAL NOTE

Forest Carbon  
Partnership Facility  
(FCPF)

BioCF Initiative for  
Sustainable Forest  
Landscapes (ISFL)

## **Third-Party Monitoring for Environmental and Social Risk Management and Benefit Sharing in Emission Reductions Programs**



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*World Bank Technical Notes provide timely, practical guidance and tips to help World Bank staff address topical and emerging Environmental and Social Framework (ESF) issues. They are not World Bank Policy nor are they mandatory.*

*This Technical Note provides information for the World Bank task teams on the application of the Third-Party Monitoring (TPM) in the Emission Reductions Programs (ERPs) supported by the Carbon Fund of the Forest Carbon Partnership Facility (CF FCPF) or Tranche 3 of the BioCarbon Fund (BioCF T3) under the Initiative for Sustainable Forest Landscapes (ISFL). The Note is issued in advance of having carried out any TPM in FCPF and ISFL ERPs. Therefore, the Note will be reviewed and if necessary, updated in light of the implementation experience from these ERPs in the future.*

## **TECHNICAL NOTE**

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# **Third-Party Monitoring for Environmental and Social Risk Management and Benefit Sharing in Emission Reductions Programs**

# Abbreviations

<b>BSP</b>	Benefit Sharing Plan
<b>ERs</b>	GHG Emission Reductions
<b>ERP</b>	Emission Reductions Program
<b>ERPA</b>	Emission Reductions Payment (or Purchase) Agreement
<b>ERPD</b>	Emission Reductions Program Document
<b>ERP TT</b>	Task Team of ER Program
<b>E&amp;S</b>	Environmental and Social
<b>ESF</b>	Environmental and Social Framework
<b>FCPF</b>	Forest Carbon Partnership Facility
<b>FGRM</b>	Feedback and Grievance Redress Mechanism
<b>FMT</b>	Facility Management Team
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IPF</b>	Investment Project Financing
<b>ISFL</b>	Initiative for Sustainable Forest Landscapes
<b>NGO</b>	Non-Governmental Organization
<b>PE</b>	Program Entity
<b>TORs</b>	Terms of Reference
<b>TPM</b>	Third-Party Monitoring or Third-Party Monitor

# Glossary

**Benefit Sharing** Under the FCPF/ISFL Emission Reductions Payment/Purchase Agreement (ERPA), the Program Entity has a contractual obligation to share the ERPA payments that it received under the ERPA for the transfer of verified emission reductions with eligible beneficiaries in accordance with the respective ERP's Benefit Sharing Plan (BSP).

**Emission Reductions Program (ERP)** A program as described in the Emission Reductions Program Document (ERPD) under FCPF or ISFL. It includes ER Program Measures covering different activities and implemented by different actors (Type A and Type B activities described below). The ERP does not finance these activities. The ERP makes payments for the results achieved through these activities, namely, verified and transferred emission reductions, as defined under the ERPA for the respective ERPs.

**Emission Reductions (ER) Program Measure(s)** One or more policies, measures or projects to reduce GHG emissions from deforestation and/or forest degradation and other land use practices, as described in the ERPD. An ERP may include three types of activities (although only Type A and B activities are deemed as "ER Program Measures"):

**Type A activities:** ER Program Measures that are financed and implemented by/under the supervision of the World Bank;

**Type B activities:** ER Program Measures that are financed and implemented by/under the supervision of other financiers (multilateral development banks, bilateral donors, private sector, NGOs, or the governments themselves);

**Type C activities:** other activities which are carried out in the ER Program Accounting Area which may in some way contribute to the generation of ERs but are not described in the ERPD (and therefore are not deemed as "ER Program Measures").

**Environmental and Social Management Framework (ESMF)** The term "ESMF" is used in this Note as a generic term to refer to World Bank Safeguards framework documents prepared for the ERPs under FCPF and ISFL, which may include ESMF, Resettlement Policy Framework (RPF), Indigenous People Policy Framework (IPPF), and Process Framework (PF), among others.

**Program Entity (PE)** The Party or Parties specified as such in the ERPA and who has or have been authorized by the Host Country, if applicable, to implement the ERP and enter into an ERPA with the Trustee.

**Safeguards Plan** The term "Safeguards Plans" is used in this Note as a generic term to refer to World Bank Safeguards documents, such as the Environmental Management Plan, the Resettlement Plan, the Indigenous Peoples Plan and any other environmental or social related plan or document (e.g. ESMF) required under the World Bank Safeguards and describing measures to be implemented by the PE during the implementation and operation of the ERP and

the ER Program Measure(s) to eliminate, offset or reduce any adverse environmental and social impacts of the ERP and ER Program Measure(s), in accordance with World Bank requirements.

**Third-Party Monitor and Third-Party Monitoring (TPM)** An entity other than the Trustee or PE who monitors and reports to the World Bank (FMT and ERP TT) on whether (i) ER Program Measures are implemented in accordance with the relevant Safeguards Plans (e.g., ESMF for the ERP), and/or (ii) the BSP has been implemented in accordance with its terms. The TPM may be consulting firms or individuals. The TPM should not be affiliated with the implementation of the ERP, and should have adequate knowledge on World Bank Safeguards.

**Trustee** The IBRD, acting as trustee of the Carbon Fund under the FCPF or ISFL, and for the purposes of this Note, the following units of the Bank may act, individually or collectively, as the Trustee: the FCPF/ISFL FMT, and any other relevant units of the Bank (e.g., LEGEN, OPCS). This Note clarifies the roles and responsibilities of the Bank units with respect to implementation of TPM.

**World Bank Safeguards** The applicable environmental and social standards of the Bank, used as a generic term to refer to both the Bank's environmental and social safeguard policies and the Bank's ESF, as the case may be. World Bank Safeguard Policies apply to ERPs for which the Project Concept Note (PCN) review took place before October 1, 2018. The ESF applies to ERP for which the PCN review took place on or after October 1, 2018.<sup>1</sup>

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1. Of the 15 ERPs under the FCPF, 13 ERPs (Chile, Costa Rica, Democratic Republic of Congo, Dominican Republic, Fiji, Ghana, Indonesia, Lao PDR, Madagascar, Mozambique, Nepal, Republic of Congo, and Vietnam) were prepared under the Safeguard Policies. Cote d'Ivoire and Guatemala were prepared under the ESF. Under the ISFL, Zambia is currently under the Safeguards Policies, while Colombia, Ethiopia, Indonesia and Mexico are expected to apply the ESF.

# Introduction

**The purpose of the Technical Note.** The purpose of this Note is to inform the ER Program Task Teams (ERP TTs) on the objectives and processes of Third- Party Monitoring (TPM) of the implementation of Safeguards Plans (e.g., Environmental and Social Management Framework (ESMF)) and the Benefit Sharing Plan (BSP) in the Emission Reductions Programs (ERPs) of the Forest Carbon Partnership Facility (FCPF) and of the BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL). The Note also seeks to clarify the roles and responsibilities of the Program Entities (PEs), the ERP TTs, and the respective FCPF and ISFL Facility Management Team (FMT) in the process of organizing and conducting TPM of Safeguards Plans (e.g., ESMF) and the BSPs for ERPs.

This Note consists of two parts. Part **A: What is TPM of Safeguards Plans (e.g., ESMF) and BSPs for the FCPF/ISFL ERPs** is an overview of the purposes and main methods of TPM of the implementation of the Safeguards Plans (e.g., ESMF) and the BSPs. **Part B: When and how should the TPM for ERPs be conducted** discusses when the TPM would be deployed, associated processes, and the roles of different parties. The Note is not meant to capture all the TPM nuances, which will be determined by the country's specific context, ERP, level of risks, and other relevant factors, and to be specified in the Terms of Reference (ToRs).

# Part A: What is TPM of Safeguards Plans (e.g., ESMF) and BSPs for the FCPF/ISFL ERPs?

**The purpose of TPM of Safeguards Plans and BSPs.** FCPF/ISFL ERPs are complex, cover wide geographic areas, and involve a large number of individual ER Program Measures that could present environmental and social risks and impacts. ERPs may include ER Program Measures that are financed by the World Bank and under supervision by the World Bank (Type A activities), as well as ER Program Measures that are financed or implemented by other donors, governments themselves, civil society organizations, and/or private sector entities (Type B activities).

TPM can provide timely information to the Bank on important implementation issues and challenges with respect to the Safeguards Plans (e.g., ESMF) and/or BSP of an ERP. Findings from the TPM could provide a basis for the ERP TTs to discuss with the PE regarding the need for any corrective actions, changes in management approach, and/or additional financial or human resources by the PE.

Findings from the TPM inform FMT's determination on ERPA payments. At the time of making an ERPA payment, FMT determines whether to make the ER payment in whole or in part based on, inter alia, the ERP TT's determination on the implementation of the Safeguards Plans (e.g., ESMF) and the BSP for the ERP. The ERP TT would base their determination, in turn, on the Bank's supervision of the Type A activities, supervision by other financiers (as relevant and available for Type B activities), the PE's self-reporting, and TPM reporting, as available.

**What is the general scope of TPM?** TPM can take various forms but typically would involve a combination of (i) review of information from PE's self-reporting as documented in the ER Monitoring Reports, and (ii) monitoring of a sample of ER Program Measures to assess if PE has implemented these measures in accordance with the Safeguards Plans (e.g., ESMF) and BSP for the ERP.

The scope of the TPM can include, but is not limited to:

- » Assess the implementation status of the Safeguards Plans (e.g., ESMF) and BSP, including the consultation processes and the Feedback Grievances Redress Mechanism (FGRM) records;
- » Assess the effectiveness of the management measures that are set out in the Safeguards Plans (e.g., ESMF), and the benefit sharing arrangement in the BSP, based on site visits and sample documentation review; and
- » Review the information from PE's self-reporting, as documented in the ER Monitoring Reports.



The ERP TT prepares the TORs for the TPM in consultation with the FMT. The FMT has developed two template TORs for the TPM: one for monitoring the implementation of Safeguards Plans, the other for monitoring the implementation of BSPs. The ERP TT may consider, in consultation with FMT, combining the two templates into one for an ERP, so long as the right expertise on environmental and social issues and BSP-specific issues (e.g. financial management and fund flow related aspects in BSPs) is provided to undertake the work. When adapting the template TOR(s) to a specific ERP, ERP TTs should also consult the Good Practice Note: Environmental & Social Framework for IPF Operations - “Third-Party Monitoring.”

# Part B: When and how should the TPM for the ERPs be conducted?

**When TPM should be conducted.** At the end of each Reporting Period under an ERPA (of one or more years), the FCPF/ISFL General Conditions applicable to ERPAs require the PE to “provide evidence satisfactory to the Trustee that the ER Program Measure(s) are being implemented in accordance with the Safeguards Plans and that the Benefit Sharing Plan has been implemented in accordance with its terms (including any feedback and grievance redress mechanism set up under any of such documents)” as annexes to the ER Monitoring Report. In addition, the ERPAs require the PE to annually “monitor and report to the Trustee on the implementation of the Safeguards Plans and the Benefit Sharing Plan during Reporting Periods”. These General Conditions also provide that “failure to observe, implement and meet all requirements contained in . . . the Benefit Sharing Plan and/or a Safeguards Plan provided for under the ERPA (including any feedback and grievance redress mechanism provided for under the ER Program, the Benefit Sharing Plan and/or a Safeguards Plan)” is considered an Event of Default on the part of the Program Entity.” The ERPAs provide the Trustee with the right to initiate a separate monitoring of the implementation of the Safeguards Plans and BSP, as applicable, annually after the date of the ERPA by an independent TPM. The third-party monitoring is separate from and additional to the monitoring and verification processes for emission reductions generated under the ERP<sup>2</sup>. In general, there will be two main types of TPM: **proactive/routine** and **ad hoc**.

**Proactive or routine TPM.** Proactive TPM is routinely planned to be deployed at specific benchmarks of the ERP’s implementation. The scope, timing, and budget for routine TPM is to be agreed between ERP TTs and FMT for each ERP and should be flexible enough to adjust if circumstances change.

- » The **ERPs with Type A activities** are subject to normal Bank implementation support since they are financed by the Bank. For these activities, routine TPM may not be necessary if the ERP TT has access to complete information on the implementation of the World Bank Safeguards instruments related to these activities, based on the regular supervision and implementation support reports for these Type A activities. However, a TPM for BSP monitoring may still be helpful, if Benefit Sharing is not implemented through any of the Type A activities in the ERP.

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2. Some countries may have emission reductions (ERs) generated prior to ERPA signature (“retroactive” ERs). To be eligible for ER payment, the ER Program Measures that generated the “retroactive” ERs are required to have been implemented in a manner consistent with the agreed Safeguards Plans. When preparing the ERP, PEs should conduct an ex-post safeguard review of ongoing ER Program Measures that generated the “retroactive” ERs for Bank review. After all condition for effectiveness for the sale and purchase obligations under the ERPA have been fulfilled and before making payments for “retroactive” ERs, the FMT may decide to arrange for TPM for the retroactive ERs.

- » The **ERPs with Type B activities** are supervised and managed by entities other than the Bank. For these activities, TPM would be helpful as a way to inform the ERP TT on the implementation of Safeguards Plans (e.g. ESMF) and the BSP.

Since most of the FCPF/ISFL ERPs include a mix of Type A and Type B activities, it is expected that the TPM would be engaged in most of the ERPs. With respect to the frequency of TPM, as mentioned above, the TPM would be typically conducted after the Bank receives the PE's self-reporting on the implementation of the Safeguards Plans (e.g., ESMF) and BSP), and in parallel with the ER Verification process (typically every 2-3 years, as specified in the relevant ERPA). To pilot the TPM arrangement, the FMT may decide that the TPM would be engaged for at least the first three ERPs under implementation. For each of the three ERPs for the pilot phase, TPM will be undertaken on an annual basis for the first three years of implementation. After the piloting phase, the FMT, together with ERP TT, may decide whether additional annual TPM arrangement would be necessary for these or subsequent ERPs.

**Ad hoc TPM.** TPM would be available, if needed on an ad hoc basis, in the event there are any implementation problems with respect to the Safeguards Plans (e.g. ESMF) and/or BSP for the ERPs. The decision as to whether to provide budget for reactive TPM will be made by the FMT based on request by the ERP TT. The ERP TT may recommend TPM based on the PE's self-reporting, financier(s) supervision reports (e.g., ISRs or similar), as relevant and available, other sources of information or triggering events. Examples of triggering events include a large number of serious complaints registered through the FGRM, incidents/fatalities, reports of gender-based violence, loss of critical habitat and/or biodiversity resulting from ER Program Measures.

**Fact-finding mission for Type C activities.** *The Bank has no responsibilities toward Type C activities. However, the Bank might learn about a potential concern related to Type C activities through the Bank's normal supervision of Type A activities, self-reporting by the PE, third party monitoring of Type A and B activities, and/or the operation of the FGRM of the ERP. In such situations, the ERP TT may engage in a fact-finding mission to assess the particular activity in question, if deemed appropriate.*

**How TPM will be conducted.** The FMT or ERP TT will contract, and the FMT will finance, the TPM based on TORs prepared by the ERP TT. The FMT and the ERP TT will agree on the general scope, timing, and budget for each TPM contract. TPMs may be firms or individual consultants. They will report to the ERP TT. If the TPM identifies significant issues with implementation of the Safeguards Plans and/or the BSP, the ERP TT will share findings of such issues with the PE and the FMT, provide implementation support, and/or follow the procedures as spelled out in the respective ERPAs to address the issue(s)<sup>3</sup>.

PEs are to provide full support to the TPM through sharing relevant documents, information, facilitating the organization of meetings, facilitating access to relevant sites, and other assistance required for effective TPM.

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3. As relevant, Regional Environmental and Social Standards Advisors (RSA) (previously called Regional Safeguards Advisors (RSA) or Environmental and Social Standards Advisors (ESSA)) and OPCS may be consulted for advice on any additional E&S management measures.

