

# Emergent's Guiding Principles for Fund Management and Reporting

Fund management is a cross-cutting function at Emergent that supports delivery of high integrity Emission Reduction (ER) credits while ensuring fundamental safeguards. The fund management architecture for transactions is informed by existing public and private funding best practices,<sup>1</sup> under which funding decisions are contingent on fiduciary and anti-corruption provisions, as well as environmental and social safeguards. Fund management processes for LEAF Coalition transactions are also designed to fulfil obligations under grant agreements Emergent enters into with sovereign and private, philanthropic donors.

Proceeds from the sale of ERs represent Results-Based Payments based on validated and verified results achieved by jurisdictions. The proceeds are intended to support tropical forest countries in their continuing efforts to deepen their climate ambition, contribute to sustainable development, and enhance forest protection policies. Five overarching Guiding Principles on Fund Management at Emergent have been defined to inform arrangements between key actors during credit issuance, funds distribution, and monitoring and reporting processes, as follows:

- 1. PERFORMANCE-BASED FINANCE:** Jurisdictions are eligible to receive Results-Based Payments associated with ERs and removals achieved under REDD+ programmes once requirements under ART/TREES are fulfilled.
- 2. COUNTRY OWNERSHIP:** Jurisdictions set their own priorities for the use of proceeds from the sale of ER credits to achieve their Nationally Determined Contributions under the Paris Agreement and support sustainable development, with a priority for forest protection and restoration.
- 3. SOCIAL AND ENVIRONMENTAL SAFEGUARDS:** Jurisdictions develop benefit-sharing plans that uphold the United Nations Cancun Safeguards to ensure the full and effective participation of relevant stakeholders, in particular Indigenous Peoples and Local Communities (IPLCs).
- 4. FINANCIAL INTEGRITY:** Funds are channelled through accredited financial intermediaries and distributed to implementing entities in accordance with jurisdictions' priorities. Funds management is closely monitored to ensure funding is utilized as intended.
- 5. TRANSPARENCY:** Use of funds and progress towards outcomes is regularly and transparently monitored and reported. The Five Guiding Principles as described here are linked how they are put into practice through the unique architecture and roles of key actors in Emergent's Fund Management and Reporting Operational Manual.

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<sup>1</sup> The process and guidelines are informed by a robust benchmarking exercise including the following structures and mechanisms: GCF; GEF; U.S. Agency for International Development; U.S. Development Finance Corporation; UK Department for International Development (reorganized into the UK Foreign, Commonwealth & Development Office); the UK CDC Group; FCPF; Equator Principles; Principles for Responsible Investment; the Foreign Corrupt Practices Act; and Norway-Indonesia and Norway-Brazil bilateral funding agreements.

**PRINCIPLE #1: PERFORMANCE-BASED FINANCE: Jurisdictions are eligible to receive Results-Based Payments associated with ERs and removals achieved under REDD+ programmes once requirements under ART/TREES are fulfilled.**

Under [ART-TREES](#), forest countries and eligible subnational jurisdictions can generate verified emissions reduction and removals credits by meeting precise and comprehensive requirements comprising: accounting and crediting; monitoring, reporting and independent verification; mitigation of leakage and reversal risks; avoidance of double-counting; robust environmental and social safeguards; and the transparent issuance of serialized units on a public registry. Issuance of ER credits is validated for the defined crediting period and serves as material carbon value recognition of reductions in deforestation, rehabilitation of degraded land, and mitigation of greenhouse gases emissions (GHGs) by forest countries.

**The overarching goal for Emergent is to stimulate increase in the value of standing forests, while growing finance flows to tropical forest protection at scale, with GHGs from the forest sector reduced in line with the Intergovernmental Panel on Climate Change (IPCC) scenarios for a 1.5 degree-increase pathway.**

The LEAF Coalition's Theory of Change is centred on catalysing private sector commitments to LEAF through partnering with sovereign participants (demand-side), increasing offerings of high-integrity, ART-TREES compliant ER credits available for purchase from jurisdictions (supply-side), and effective and transparent administration of LEAF Coalition transactions by Emergent (commercial platform).

**PRINCIPLE #2: COUNTRY OWNERSHIP: Jurisdictions set their own priorities for the use of proceeds from the sale of ER credits to achieve their Nationally Determined Contributions under the Paris Agreement and support sustainable development, with a priority for forest protection and restoration.**

To help raise NDC ambition and advance national REDD+ objectives, Emergent and the LEAF Coalition will pursue a country-driven approach that promotes and strengthens engagement at the jurisdictional level through effective involvement of relevant institutions and stakeholders. This is consistent with the GCF [policy](#) on country ownership and is informed by successful experience with REDD+ programs, such as the [Amazon Fund](#) in Brazil and the Central African Forest Initiative ([CAFI](#)). The use of proceeds from selling ERs is determined by the Jurisdictions to support clear objectives to achieve their Nationally Determined Contributions under the Paris Agreement and to support their sustainable development, with a priority for forest protection and restoration.

The aim is to create a virtuous cycle that results in sustainable and continued reductions in deforestation, expanded restoration efforts, increased NDC ambition, and strengthened forest protection and sustainable development policies.

**PRINCIPLE #3: ENVIRONMENTAL AND SOCIAL SAFEGUARDS: Jurisdictions develop benefit-sharing plans that uphold the United Nations Cancun Safeguards to ensure the full and effective participation of relevant stakeholders, Indigenous Peoples and Local Communities (IPLCs).**

Under [ART/TREES](#), Host Jurisdictions are required to present Benefit Sharing Plans or mechanisms identifying the beneficiaries of proceeds from ER transactions. Benefits sharing should consider broad engagement of actors who are conducting forest-protection actions in support of national or sub-national jurisdiction results.

For the case of subnational participants under TREES, reporting and monitoring tools to demonstrate conformance with safeguards shall evidence coherence and/or alignment with national reporting and monitoring in the context of the UNFCCC. The Cancun Safeguards are important for TREES qualification and validation, and will be monitored during the planning process, up through assessment of results.

Throughout structuring and during delivery of proceeds from ER sales, Emergent will work closely with the ART Secretariat to ensure that efficient and timely safeguard monitoring processes are conducted. Subsequently, during deployment of proceeds from sale of ERs, the Financial Intermediary will monitor safeguards compliance of downstream partners and final beneficiaries.

**PRINCIPLE #4: FINANCIAL INTEGRITY: Funds are channelled through accredited financial intermediaries and distributed to implementing entities, in accordance with jurisdictions' priorities and benefit sharing plans. Funds management is closely monitored to ensure funding is utilized as intended.**

Emergent and the LEAF Coalition Transaction Architecture facilitates efficient channelling of proceeds. The Financial Intermediary has a key role in providing oversight on use of funds based on the Host Jurisdiction's Investment Framework.

The Financial Intermediary also monitors implementation to ensure adherence to anti-corruption, anti-bribery, anti-fraud and anti-money laundering laws, aligned with the Foreign Corrupt Practice Act (FCPA) and UK Bribery Act.

**PRINCIPLE #5: TRANSPARENCY: Use of funds and program outcomes are frequently and transparently monitored and reported.**

The Host Jurisdiction and its Financial Intermediary will agree on key performance indicators based on the activities and programs implemented under the Investment Framework with proceeds from carbon transactions. The FI will monitor and report on financial management and results achieved on an annual basis. Emergent will transparently communicate progress and results to LEAF stakeholders and the public at large.