Forest Carbon Partnership Facility

Possible Extension of the Term of Funds

Eleventh Meeting of the Carbon Fund (CF11)
Washington DC, USA
October 6-8, 2014
Recap and Expectations

• At CF10 in June CFPs agreed on importance of discussing long-term future of the Carbon Fund
  – Agreed to discuss the Carbon Fund termination date
  – Role as a pilot mechanism for results-based payments for REDD+
  – Implications on length of ER Program implementation

• FMT Note on meeting page of FCPF website

• Expectations
  – Intended to facilitate discussion
  – Not expecting a decision or resolution at this meeting
  – Potentially a decision at a future meeting or by action without a meeting (requires positive agreement, not ‘no objection’)
Current Term

• Charter states that both the Readiness Fund (RF) and the Carbon Fund (CF) will terminate on December 31, 2020.

• Term of the CF can be extended by unanimous consent of the Carbon Fund Participants (CFPs)

• Term of the RF can be extended by unanimous consent of all REDD Country Participants and all Donor Participants (not CFPs unless they are also Donor Participants in the RF)

• Provided
  – a) Trustee continues to serve
  – b) Board of Directors of World Bank agrees
Current Status of Carbon Fund

• 11 possible ER-PINs in the pipeline
  – Chile, Costa Rica, DRC, Ghana, Mexico, Nepal, RoC, Vietnam (8)
  – Guatemala, Indonesia, Peru (3)

• Currently at Letter of Intent (LoI) stage or ER-PIN stage

• Readiness Package to be endorsed by Participants Committee (PC)

• Develop ER Program, present ER Program Document (ER-PD) to CF and have it selected into CF portfolio

• First Readiness Packages to be submitted for endorsement by PC in final quarter of FY15

• First ER-PDs expected in FY16

• LoIs include Exclusivity Period of 24 months plus a possible ERPA Negotiation Period of up to an additional 10 months
Carbon Fund Process

1. ER-PIN submitted
   (REDD Country or authorized entity)

2. ER-PIN reviewed + selected into pipeline
   (CFPs and World Bank)

3. Letter of Intent signed
   (REDD Country/authorized entity and World Bank)

4. Draft ER-Program Document reviewed
   (REDD Country/authorized entity and CFPs)

5. ER-PD submitted + selected into CF portfolio
   (Carbon Fund Participants)

6. ERPA Negotiation + Signing
   (World Bank and Carbon Fund Participants)

7. Implementation, verification, payments
   (Carbon Fund Participants and REDD+ country/authorized entity)

Readiness Package
(submitted by REDD+ Country, endorsed by PC)

ER Program Due Diligence Assessment in accordance with Carbon Fund’s Methodological Framework (TAP)
Implications for Carbon Fund (1)

- Implications of terminating CF by December 2020
  - Estimated ER potentials currently based on a 2016-2020 ER generation period
  - Estimated ER-PA terms and ER generation period are short (and may become shorter)
  - Short ER generation periods may lead to under-commitment of available CF resources
  - More ER-PINs selected with smaller volumes than originally anticipated
  - This over-programming can lead to unrealistic REDD Country expectations
  - CFPs indicated a preference to close ER-PIN pipeline at this meeting
  - Multiple verification events are difficult during a short ER-PA term; may reduce confidence in ER volumes
Implications for Carbon Fund (2)

• ERPA term ends at **earlier** of either i) date of final transfer and payment or ii) a stated final termination date as specified in the ERPA

• Need to allow time for verification, transfer and payments – normal practice under WB Carbon Funds is for the ERPA Reporting Period (during which ERs are generated) to end a year prior to that stated final termination date

• ERPA Reporting Period should end one year prior to termination of fund
Implications for Carbon Fund (3)

• World Bank 14 years of experience with 14 Carbon Funds; delays are common, almost inevitable; longer fund terms provide greater flexibility

• Advantages of extension
  – Reduces delivery risk; provides flexibility
  – Fund can be closed earlier if objectives met and ERPAs terminated
  – ERPA terms can be extended if necessary
  – Greater clarity on future REDD+ mechanism and future sources of funding for REDD+
  – Greater lessons learned regarding reversals, buffers, benefit sharing mechanisms and safeguards management

• Risks of an extension
  – Reduced efforts to move quickly through process;
  – However, guaranteed 5-year ER generation and possibly longer ERPA terms for early movers could provide greater incentives
  – Options (and the real possibility of fulfilling those options) could also act as an incentive for earlier implementation

• REDD Countries would likely welcome an extension (not to slow down but as a greater incentive to meet the current timeline)
Carbon Fund Timeline

- Dec 2014: Sign ERPA
- Dec 2016: Sign ERPA
- Dec 2018: Sign ERPA

5-year ER Reporting Period

1-year for verification, transfer and payment

- Dec 2020: ERPA term ends
- Dec 2022: ERPA term ends
- Dec 2024: ERPA term ends

1-year for verification, transfer and payment
Costs for Carbon Fund

• If CF extended, but not RF, administration costs estimated at $0.5 million per year

• If both funds are extended, Shared Costs charged to CF estimated at $0.6 million per year

• Cost of development and supervision of each additional ER Program estimated at $1.7 million (from early ideas right through to end of an ERPA term)
Conclusions – Carbon Fund

• With current pipeline, FMT recommends that CFPs consider extending the term of the CF to at least December 2025

• If pipeline extended to December 2016, consider extending term of the CF a further two years, to December 2027
Readiness Fund

- 47 REDD Countries all at very different stages in Readiness process and with very different timelines for achieving their objectives
- Assuming intent is to enable as many of these REDD Countries to submit a Readiness Package for endorsement by the PC, there is also a case for extending the term of the RF
- But extend to when?
- Currently sufficient funding to provide $3.8 million grants to all 44 active REDD Countries, plus $5 million to 18 countries
- To ensure progress, necessary to continue to operate on a first-come, first-served basis without guarantees of funding and to impose deadlines which are respected
Costs for Readiness Fund

• Cost implications, but very dependent on the nature of the extension
• Delivery Partner support costs for 44 active countries and for additional support costs for $5 million grants are included in long-term financial plan (LTP)
• Costs of continuing FMT support to countries, and the Secretariat, administrative and legal costs not included
• With various assumptions, additional costs probably around $2 million per annum
Conclusions – Readiness Fund

• No urgent pressing need to make a decision to extend the RF now
• Wiser to delay any extension of the RF until greater clarity?
• Subject to be raised for initial discussion at the upcoming PC/PA In Tanzania?
Carbon Fund - Restatement of Conclusions and Expectations

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THANK YOU!

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## Expected timeframes

<table>
<thead>
<tr>
<th>Milestones</th>
<th>Sample Country A (optimistic)</th>
<th>Sample Country B (realistic)</th>
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</thead>
<tbody>
<tr>
<td>ER-PIN selected</td>
<td>April 2014</td>
<td>April 2014</td>
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<tr>
<td>LOI signed</td>
<td>June/July 2014</td>
<td>September 2014</td>
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<tr>
<td>WB Due diligence</td>
<td></td>
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<tr>
<td>Country shares advanced ER-Program Document (approx. 12-18 months to develop)</td>
<td>By July 2015</td>
<td>By January 2016</td>
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<tr>
<td>CFP virtual review (4 weeks?)</td>
<td>August 2015</td>
<td>February 2016</td>
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<tr>
<td>TAP review (approx. 3-6 months?)</td>
<td>September - January 2016</td>
<td>March – August 2016</td>
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<tr>
<td>Self-assessment process of R-Package</td>
<td>By January 2016</td>
<td>By September 2016</td>
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<tr>
<td>WB Due Diligence</td>
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<tr>
<td>R-Package endorsed by PC</td>
<td>April 2016</td>
<td>November 2016</td>
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<tr>
<td>ER-PD submitted</td>
<td>May 2016</td>
<td>December 2016</td>
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<tr>
<td>WB Due Diligence</td>
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<tr>
<td>FMT review (approx. 1 month)</td>
<td>June 2016</td>
<td>January 2017</td>
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<tr>
<td>ER-PD selected (approx. 2 months for CFPs to review before making decision)</td>
<td>September 2016</td>
<td>April 2017</td>
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<tr>
<td>ERPA negotiated and signed (approx. 3-6 month process)</td>
<td>October 2016 - March 2017</td>
<td>May - October 2017</td>
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<td>Implementation, Verification, Payments</td>
<td>^3.75-4 years (~2.75-3 implement.)</td>
<td>^3.25-3.5 years (~2.25-2.5 implement.)</td>
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