Forest Carbon Partnership Facility

Possible Extension of the Term of Funds

Seventh Meeting of the Participants Assembly (PA7)
  Arusha, Tanzania
  November 2, 2014
Recap and Expectations

- At CF11 in October 2014 CFPs discussed the possibility of extending the term of the Carbon Fund (CF) beyond 2020.
- Agreed that the PA should be kept informed of the possible extension of the CF and given the opportunity to provide inputs.
- Proposed that the possibility of extending the term of the Readiness Fund be raised for initial discussion by the PA.
- FMT Note on PC/PA meeting page of FCPF website:
  - Refers to FMT Note from CF11 and presentation at CF11 (both on CF11 meeting page).
- Expectations:
  - Intended to facilitate discussion on both the CF and the RF.
  - Not expecting a decision or resolution at this meeting.
  - Potentially separate decisions at future meetings.
Current Term and Charter Provisions

- 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)

- REDD Country Participants – all 47 selected into FCPF, if PA is signed

- 15 Donor Participants (in RF) of whom 9 are also CFPs, of whom 7 were present at CF11

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

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

• Currently at Letter of Intent (LoI) stage (10) or ER-PIN stage (Indonesia)

• 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 ERPA 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 had previously indicated a preference to close ER-PIN pipeline at CF11
  – Multiple verification events are difficult during a short ERPA 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
  – ERPAs 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 ERPAs 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

1-year for verification, transfer and payment

Dec 2020
ERPA term ends

5-year ER Reporting Period

Dec 2016
Sign ERPA

1-year for verification, transfer and payment

Dec 2022
ERPA term ends

5-year ER Reporting Period

Dec 2018
Sign ERPA

1-year for verification, transfer and payment

Dec 2024
ERPA term ends

5-year ER Reporting Period

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)
Outcomes from CF11 – Carbon Fund

• CFPs generally supportive of an extension of the term of the CF, mainly to ensure a reasonable implementation period for ER Programs

• Most CFPs mentioned potentially extending to December 2025

• However, need to balance with incentives to prevent slippage in the development of ER Programs

• Agreed that a decision on the extension of the CF would be on the agenda of CF12 (likely April 2015)

• Solicit more inputs from REDD Countries and others at the PA
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 when and by how long?
• Currently sufficient funding to provide $3.8 million grants to all 45 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 45 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 beyond 2020 not included
• With various assumptions, additional costs probably around $2 million per annum
Outcomes from CF11 – Readiness Fund

- No urgent pressing need to make a decision to extend the RF now
- Suggest to revisit any extension of the RF at a later stage, when there is greater clarity
- However, not a CFP decision, interested in hearing wider range of views
- Proposed that subject be raised for initial discussion at this PA
Restatement of Outcomes from CF11 and Expectations

• Carbon Fund
  – CFPs generally supportive of an extension, potentially to December 2025
  – Decision on agenda at CF12 (likely April 2015)
  – Solicit more inputs from REDD Countries and others at this PA

• Readiness Fund
  – CFPs felt no urgent pressing need to make a decision to extend the RF now
  – CFPs suggest to revisit any extension of the RF at a later stage, when there is greater clarity

• Expectations
  – Intended to facilitate discussion on both the CF and the RF
  – Questions/provide inputs or feedback on CF and RF
  – Not expecting a decision or resolution at this meeting
  – Potentially separate decisions at future meetings
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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<tbody>
<tr>
<td><strong>ER-PIN selected</strong></td>
<td>April 2014</td>
<td>April 2014</td>
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<td><strong>LOI signed</strong></td>
<td>June/July 2014</td>
<td>September 2014</td>
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<td><strong>WB Due diligence</strong></td>
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<tr>
<td><strong>Country shares advanced ER-Program Document (approx. 12-18 months to develop)</strong></td>
<td>By July 2015</td>
<td>By January 2016</td>
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<td><strong>CFP virtual review (4 weeks?)</strong></td>
<td>August 2015</td>
<td>February 2016</td>
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<td><strong>TAP review (approx. 3-6 months?)</strong></td>
<td>September - January 2016</td>
<td>March – August 2016</td>
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<td><strong>Self-assessment process of R-Package</strong></td>
<td>By January 2016</td>
<td>By September 2016</td>
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<td><strong>WB Due Diligence</strong></td>
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<td><strong>R-Package endorsed by PC</strong></td>
<td>April 2016</td>
<td>November 2016</td>
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<td><strong>ER-PD submitted</strong></td>
<td>May 2016</td>
<td>December 2016</td>
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<td><strong>WB Due Diligence</strong></td>
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<td><strong>FMT review (approx. 1 month)</strong></td>
<td>June 2016</td>
<td>January 2017</td>
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<td><strong>ER-PD selected (approx. 2 months for CFPs to review before making decision)</strong></td>
<td>September 2016</td>
<td>April 2017</td>
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<td><strong>ERPA negotiated and signed (approx. 3-6 month process)</strong></td>
<td>October 2016 - March 2017</td>
<td>May - October 2017</td>
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<td><strong>Implementation, Verification, Payments</strong></td>
<td>&quot;3.75-4 years (~2.75-3 implement.)&quot;</td>
<td>&quot;3.25-3.5 years (~2.25-2.5 implement.)&quot;</td>
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