



Forest Carbon Partnership Facility

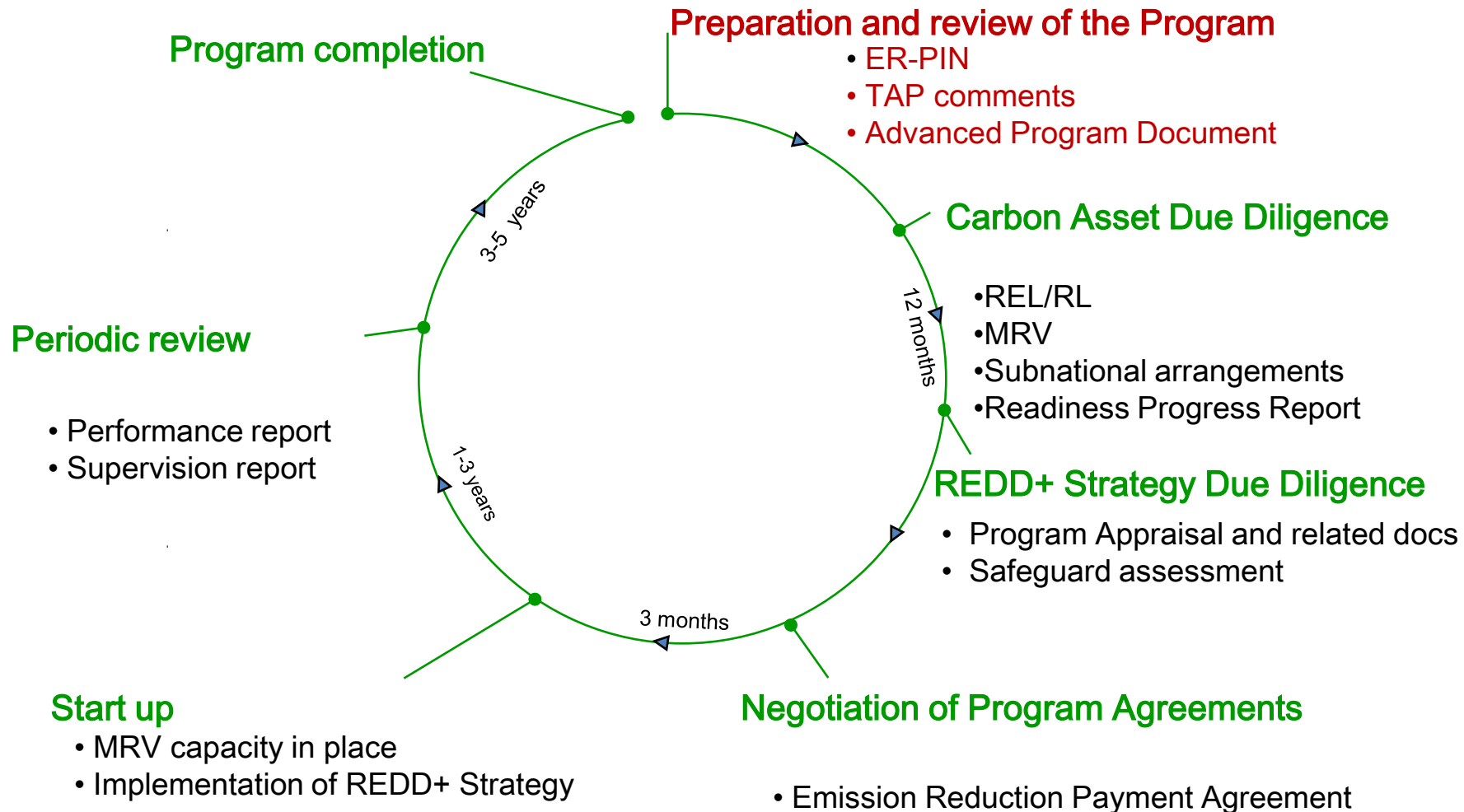
Emission Reduction Creation

Carbon Fund Consultations
Washington DC,
September 16/17, 2010



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Recap: General Selection Criteria (section 2)

- The Carbon Fund aims to support ER Programs that:
 1. Focus on results, namely high-quality and sustainable ERs (including social and environmental benefits)
 2. Are undertaken at a significant scale, e.g., at the level of an administrative jurisdiction within a country or at the national level
 3. Are consistent with emerging compliance standards under the UNFCCC and other regimes
 4. Are sufficiently diverse to generate learning value
 5. Use clear mechanisms so that the incentives for REDD+ reach those who need them
 6. Are based on transparent stakeholder consultations
- Where a sub-national ER Program is envisaged, the following elements should be addressed for it to be considered for inclusion in the Carbon Fund's pipeline:
 - Consistency with the emerging national REDD+ strategy, national REDD+ monitoring system, REL/RL
 - Assessment and minimization of the risk of leakage

Preparation and Review of Program

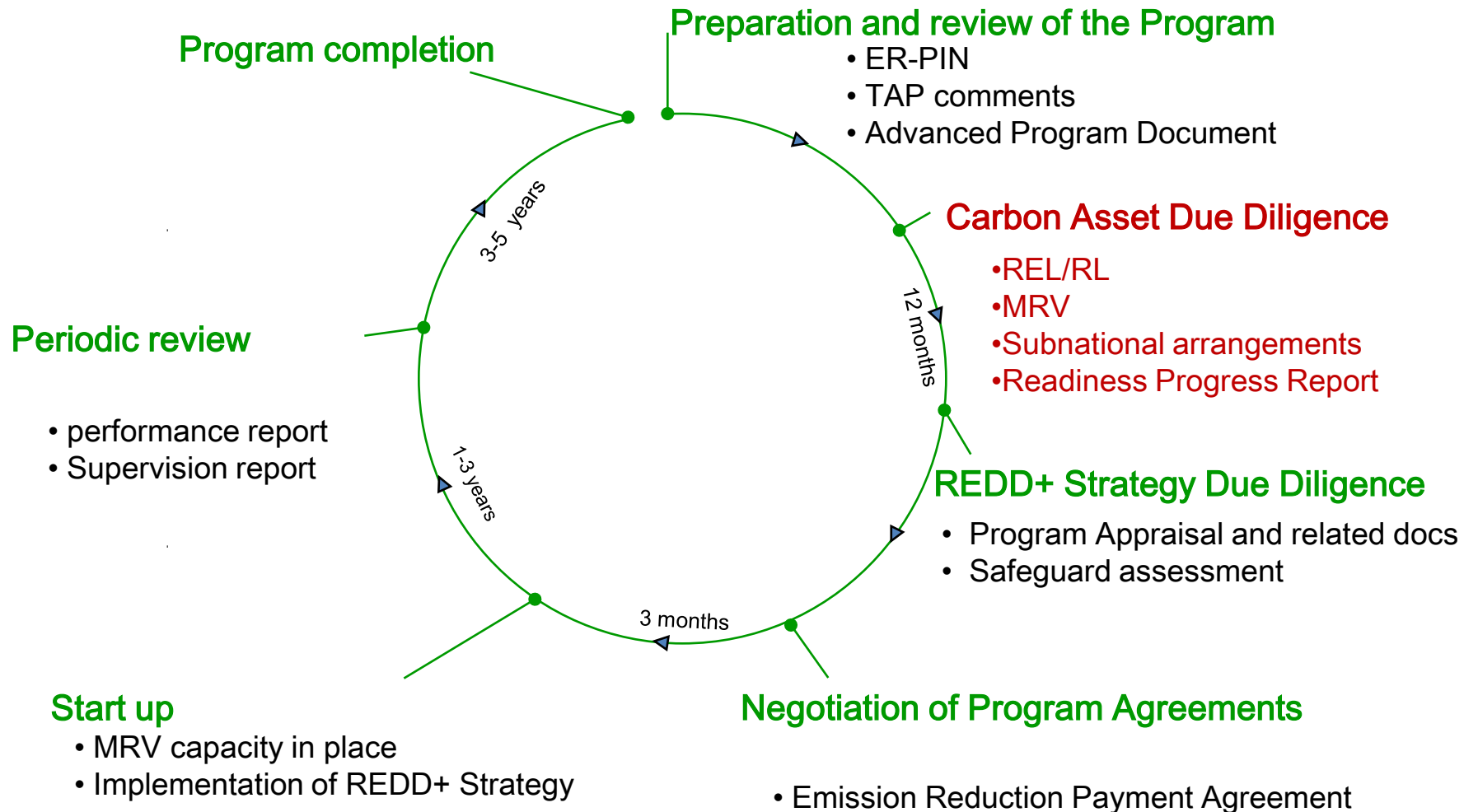
- (1) REDD Country Participant submits an ER Program, using the ER Program Idea Note (ER-PIN)
- (2) The FMT will assess the eligibility of the ER Program:
 - ER-PIN has been duly completed
 - Entity is authorized entity
 - ER Program meets the selection criteria
- (3) The FMT will submit the ER-PIN to the Carbon Fund Participants
- (4) The Carbon Fund Participants might want to request the FMT to consult with TAP to review the ER-PIN
- (5) The CF Participants decide if they take up the ER Program in their respective tranche portfolios

Preparation and Review of Program

- (5) After ER Program is accepted by the CF Participants, the non-proprietary information of the ER-PIN is posted on the web
- (6) Trustee signs Letter of Intent with REDD Country Participant, indicating its intention to sign an Emission Reduction Payment Agreement (ERPA)
 - Lol mainly guarantees exclusivity rights
 - CF would only pay for a fraction of estimated Emission Reductions

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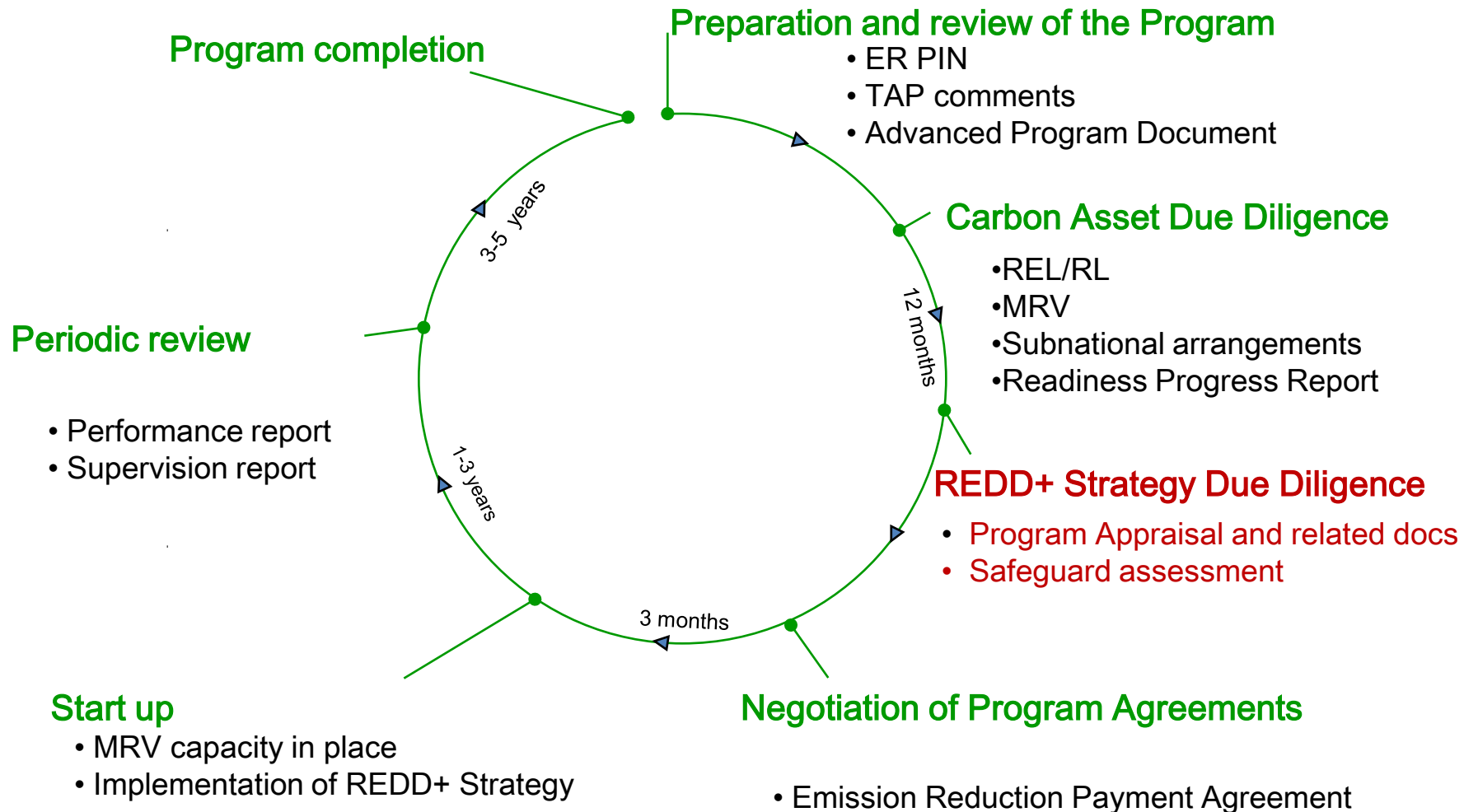


Carbon Asset Creation Process

- In parallel, REDD Country Participant is working on
 - National REL/RL, REDD+ Strategy and MRV, and
 - In the case of a subnational ER Program, to make the ER Program consistent with the (emerging) national Strategy
- (7) REDD Country Participant sends Readiness Progress Report or Readiness Package to FCPF Participants Committee :
 - (With the help of TAP) FCPF PC assesses if sufficient progress was made in the readiness process to implement ER Program(s)
 - The report needs to be assessed as soon as possible in the program cycle but in any case before ERPA signature.

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REDD+ Strategy and Due diligence

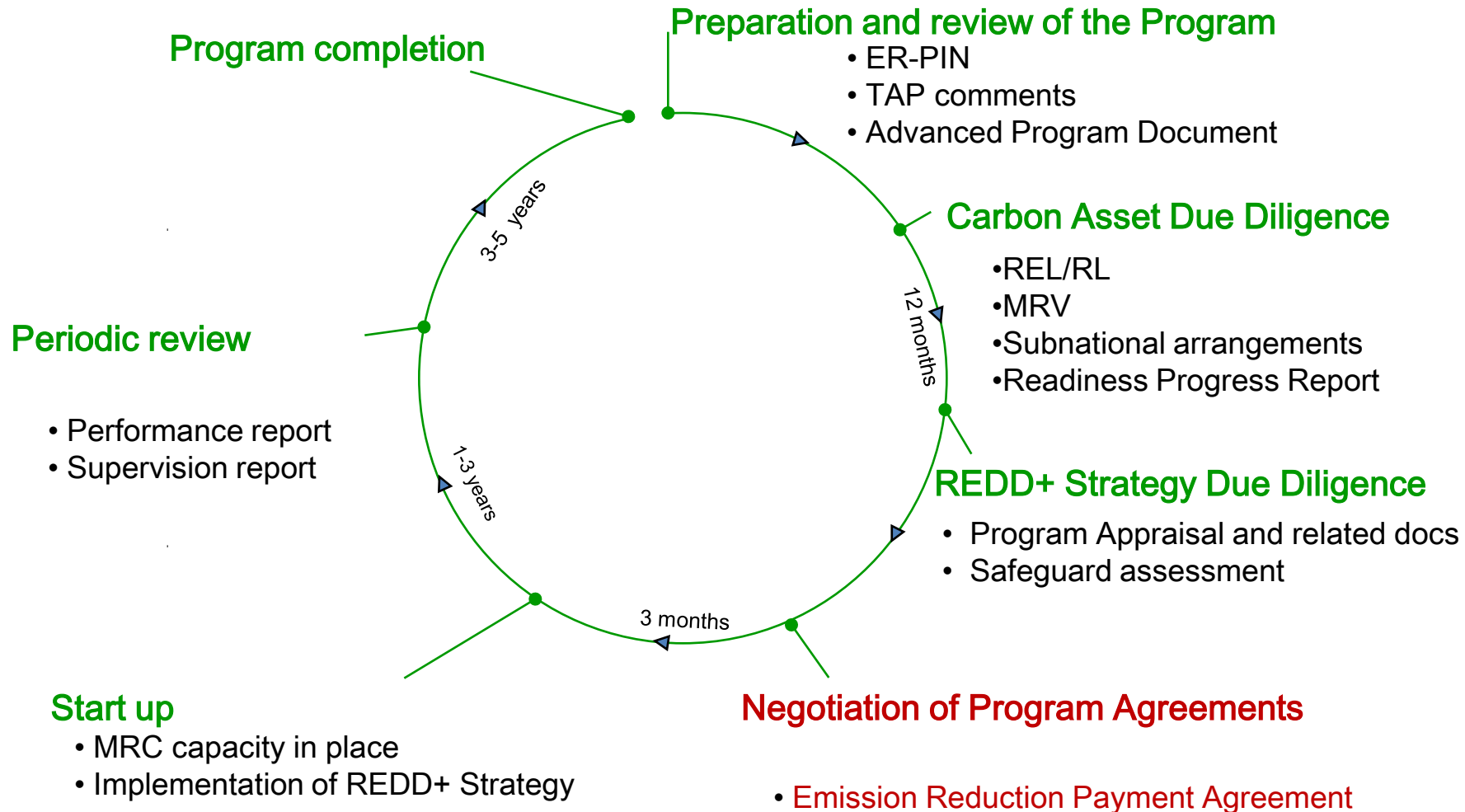
- (8) The World Bank performs its due diligence in light of the applicable Operational Policies and Procedures, including on environmental and social aspects.
 - Relevant documentation (environmental assessment, etc.) needs to be prepared by the REDD Country Participants
- The World Bank also advises the submitting country on ways to improve the quality of the ER Program:
- The World Bank prepares Appraisal documentation

Risk Assessment (section 5)

- Financial risks
 - Payment upon performance
 - Cooperation with other programs that can provide underlying finance for REDD+ Strategy implementation
- Delivery risks, quantity of ERs and quality of measurement
 - Conservative estimates of ER potential
 - Contracting only small part of estimated ERs
 - Assessment of MRV capacity before ERPA
- Non-Permanence Risks
 - Rely on national REDD+ framework (in the absence, CF would insist on buffer accounts)
- Compliance Risk/Political Risk
 - Maintain close link to Readiness Process and links to Participants Committee

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Emission Reduction Payment Agreement negotiation

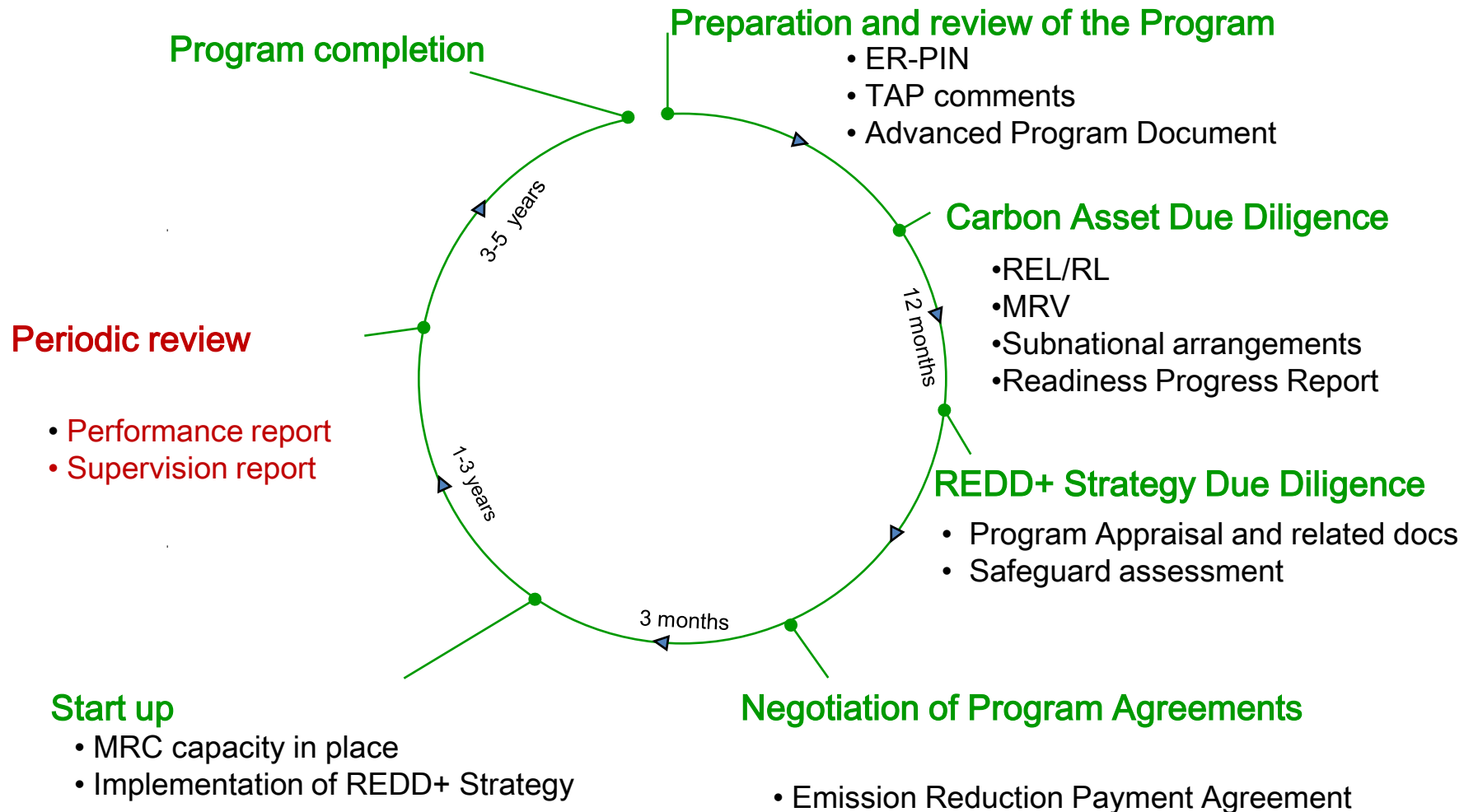
- (9) Trustee drafts ERPA, based on
 - Pricing/valuation approach, and
 - General Conditions for ERPAs
- (10) REDD Country Participant and Tranche Participants come to an agreement
 - FMT may be available to provide advice to contracting parties
- (11) Authorized Entity signs the ERPA with Trustee

Pricing Approach (to be endorsed by the PC)

- Different options should be made available, which would be selected on a case-by-case basis, seeking to achieve fairness for the sellers and buyers
- The FMT will elaborate its note on pricing/valuation approach, potential pricing options, including:
 - Fixed price
 - Fixed + variable price (relative to a reference price)
 - Various types of auctions (e.g., Dutch auction, highest bidder, auction with reservation prices, auctions of ERPA or ERs already verified, etc.)
- It should be kept in mind that the pricing mechanism is only relevant for the Carbon Fund as a catalytic and testing instrument and is not necessarily meant to set the stage for other transactions outside the Carbon Fund
 - The FCPF is also encouraged to analyze options involving buyers beyond the Carbon Fund

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Periodic Review

- (12) REDD Country Participant reports on performance
- (13) Independent Reviewer approved by the Participants Committee, assesses performance report
- (14) Trustee verifies that ER Program is in compliance with
 - the applicable Operational Policies and Procedures and
 - ERPA provisions
- (15) Based on independent review, Trustee makes payments
- (16) Trustee allocates a pro rata share of ERs to Tranche Participants