



Forest Carbon Partnership Facility

FCPF Carbon Fund business process: from ER-PIN to ERPA

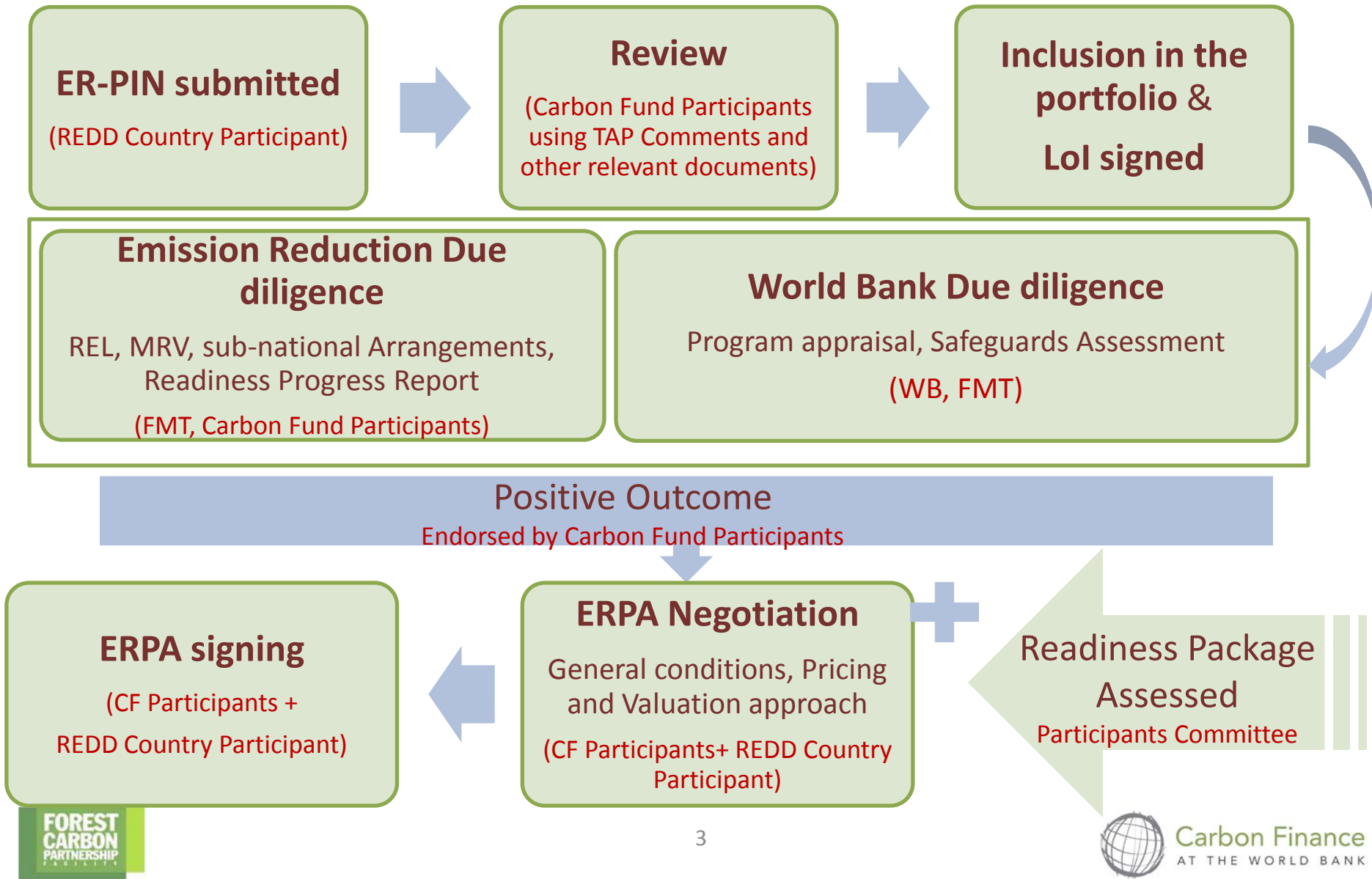
FCPF Carbon Fund – second meeting (CF2)

October 20-21, 2011

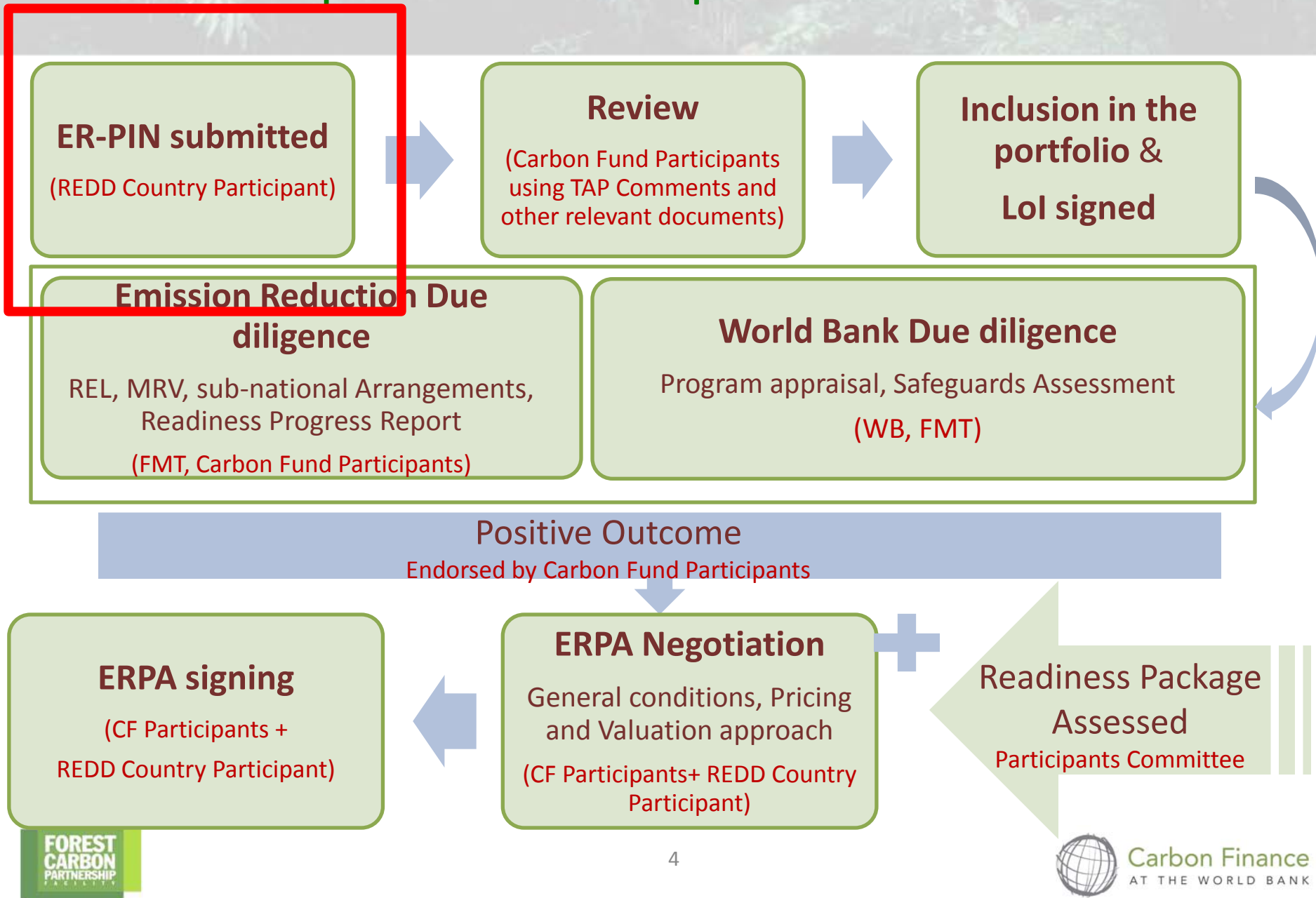
Proposed Business Process

- World Bank is the sole Delivery Partner for the ER Programs in the Carbon Fund
- FCPF Charter: Bank's Operational Policies and Procedures apply
- Carbon Fund Issues Note: 19 steps making up the business process
- But these 19 steps are not always detailed enough
- Building on the 19 steps of the Issues Note, the following slides present some of the issues where further guidance is required

Proposed business process - outline

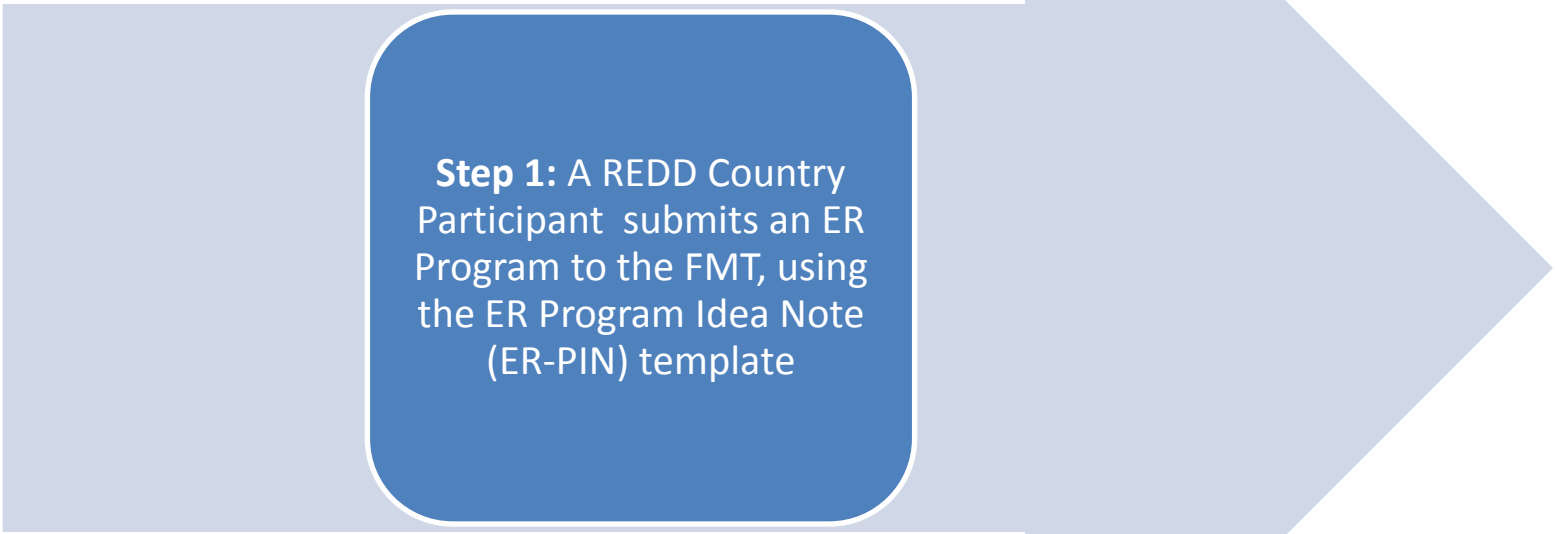


Proposed business process - outline



Proposed business process – ER-PIN submission

ER-PIN submitted



Step 1: A REDD Country Participant submits an ER Program to the FMT, using the ER Program Idea Note (ER-PIN) template

Proposed business process – Discussion

ER-PIN submitted

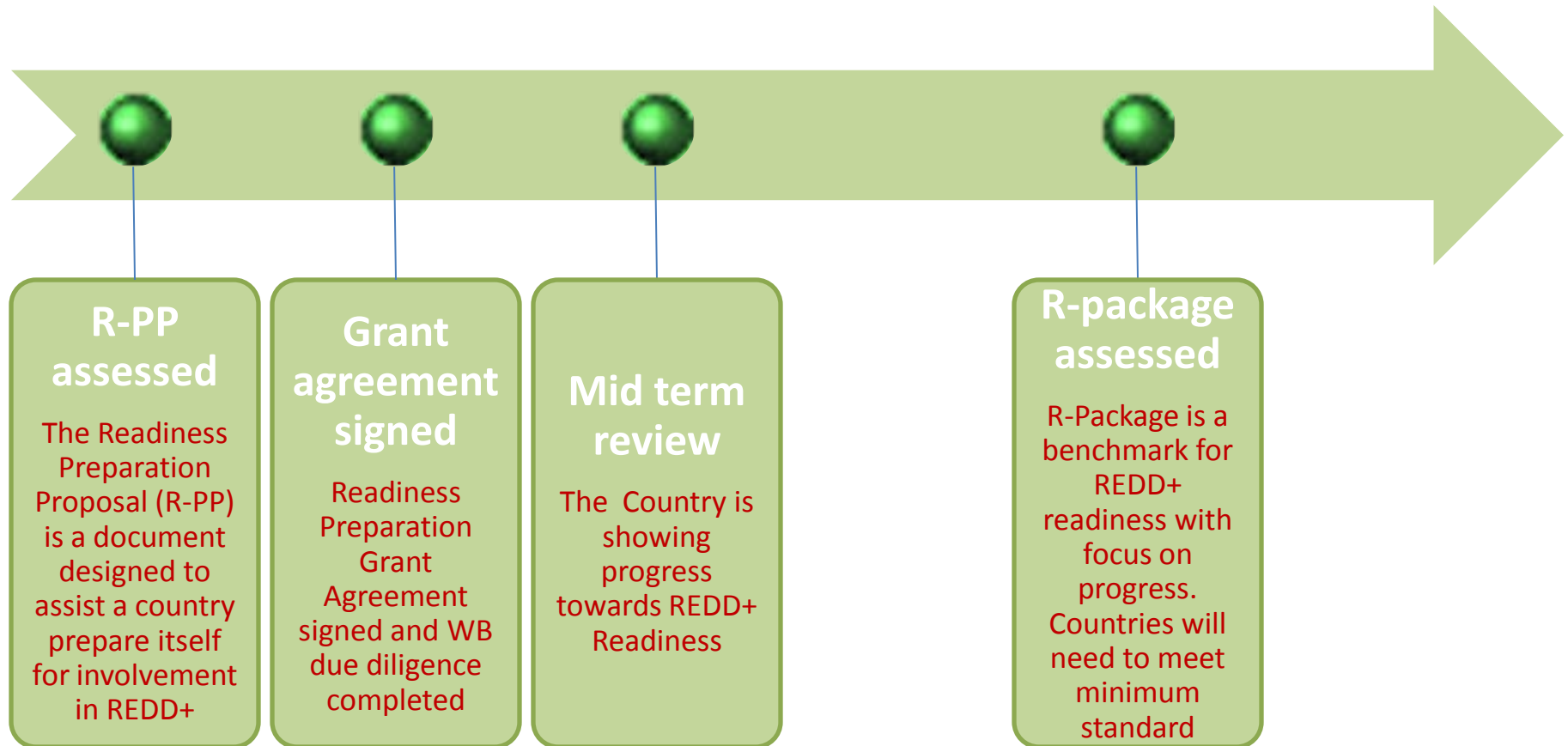
Step 1: A REDD Country Participant submits an ER Program to the FMT, using the ER Program Idea Note (ER-PIN) template

What are the minimum requirements in terms of readiness before a country can submit an ER-PIN?

Will the Carbon Fund review ER-PINs in batches or one by one?

Milestones for readiness

Readiness Preparation



Timing of ER-Pin (1)

Readiness Preparation

R-PP
assessed

Grant
agreement

Mid term
review

R-package
assessed



Carbon Fund

WB's Due
Diligence



ERPA

Timing of ER-Pin (2)

Readiness Preparation

R-PP
assessed

Grant
agreement

Mid term
review

R-package
assessed

Carbon Fund

Option 1

ER-PIN submission

WB's Due
Diligence

ERPA

Option 2

ER-PIN submission

WB's Due
Diligence

ERPA

Option 3

ER-PIN
submission

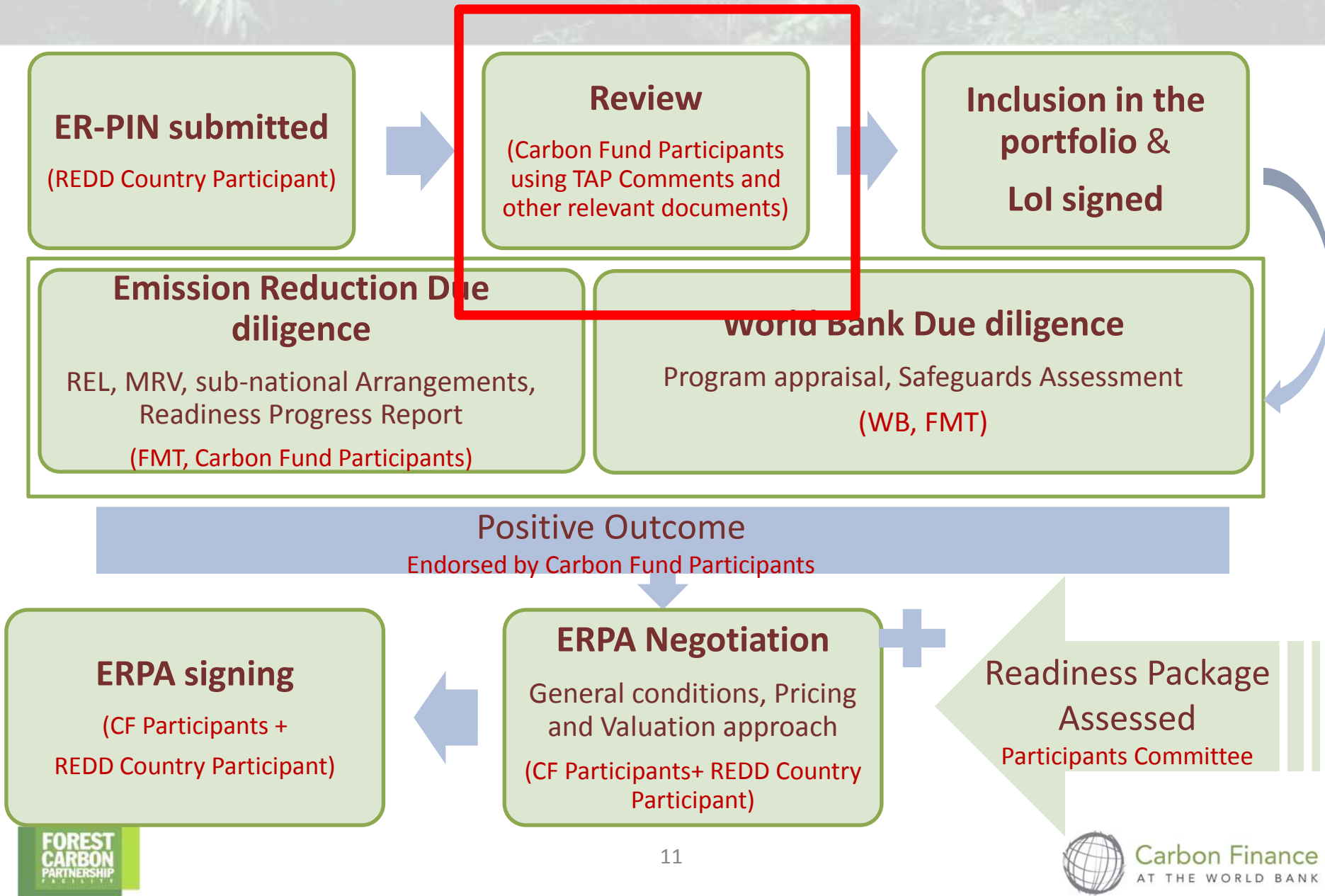
WB's Due
Diligence

ERPA

Timing of ER-PIN - discussion

- Which option from the previous slide is preferred?
 - Option 1 allows the CF to 'lock in' and allocate funds to a country earlier, hence supporting progress. However it would likely mean that more PINs will be submitted, also by countries that still have a long way to go to the R-Package assessment.
 - Option 2 means that countries have started the readiness preparation and World Bank due diligence is completed.
 - Option 3 ensures that countries have made good progress on readiness before submitting an ER-PIN and have a better chance of successfully developing an ER Program (and controls the number of countries submitting an ER-PIN). However it means that the first ER-PINs will not be submitted for a while.
- Are additional entry criteria required for countries to be able to submit an ER-PIN?
- How should the portfolio be managed in terms of diversity to create learning value and manage risks:
 - Submission of ER-PINs in 'windows' to be able to compare proposals
 - ER-PIN is allowed to be submitted whenever a country is ready → in this case is some kind of outline of the portfolio composition required to ensure countries not submit similar ER Programs

Proposed business process - outline



Proposed business process – Review

Review

Step 2: The FMT verifies that the proposed ER Program meets the requirements

Step 3: The FMT liaises with the REDD Country Participant to clarify any issues and obtain a commitment giving the Carbon Fund right of first refusal over the ER Program or a part of the Program's ERs for a given period of time

Step 4: If the proposed ER Program meets the requirements and the Carbon Fund has acquired right of first refusal, the FMT submits the ER-PIN to the Carbon Fund Participants and posts it on the FCPF website

Step 5: The Carbon Fund Participants may request the FMT to establish an Ad Hoc Technical Advisory Panel (TAP) to assist them in reviewing the ER-PIN

Proposed business process – discussion

Review

Step 2: The FMT verifies that the proposed ER Program meets the requirements

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Step 4: If the proposed ER Program meets the requirements and the Carbon

Step 5: The Carbon Fund Participants may request the FMT to establish an Ad Hoc Technical Advisory Panel (TAP) to assist them in reviewing the ER-PIN

One of the requirements is that the entity submitting the ER Program is from an FCPF REDD Country Participant and authorized to submit the ER Program.
How will the FMT verify this requirement if the ER-PIN is not submitted by the FCPF REDD+ focal point?

Approval/Authorization - discussion

- Based on the principles of sovereignty and voluntary participation in the FCPF, should a REDD Country Participant issue a formal letter of approval for any ER-Program?
- If an ER-Program is submitted by another public or private entity, the letter of approval could include an express authorization of the submitting entity by the agency authorized for this in the national REDD+ management arrangement.
- The letter of approval could include reference to and approval of the ER-Program as well as the authorization of the other public or private entity that has submitted the ER-Program, if applicable.

Proposed business process – discussion

Review

Step 2: The FMT verifies that the proposed ER Program meets the requirements

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Step 4: If the proposed ER Program meets the requirements and the Carbon Fund has acquired right of first refusal, the FMT submits the ER-

Step 5: The Carbon Fund Participants may request the FMT to establish an Ad Hoc Technical Advisory Panel (TAP) to assist

Do we need right of first refusal at this stage of the process?
Can the right of first refusal be waived and /or combined with the Letter of Authorization

Right of first refusal- discussion

- In the next phase of the process, the LOI will give us an exclusivity period in which the REDD Country Participant / authorized entity is obliged to negotiate with the Trustee an ERPA on the basis of exclusivity for a certain time period
- Are there additional benefits to having right of first refusal at this stage?
- Trustee suggests to waive this provision

Proposed business process – discussion

Review

Step 3: The FMT liaises with the

The process foresees posting of the ER-PIN. If any comments are received, the FMT would compile these comments and share them with the Fund Participants

part of the Program's ERs for a given period of time

Step 4: If the proposed ER Program meets the requirements [and the Carbon Fund has acquired right of first refusal], the FMT submits the ER-PIN to the Carbon Fund Participants and posts it on the FCPF website

Step 5: The Carbon Fund Participants may request the FMT to establish an Ad Hoc Technical Advisory Panel (TAP) to assist them in reviewing the ER-PIN

Proposed business process – discussion

Review

Step 2: The FMT verifies that the proposed ER Program meets the requirements

Step 3: The FMT liaises with the REDD Country Participant to clarify any issues and obtain a commitment giving the Carbon

Step 4: If the proposed ER Program meets the requirements and the Carbon Fund has acquired right of first refusal, the FMT posts it on CPF website

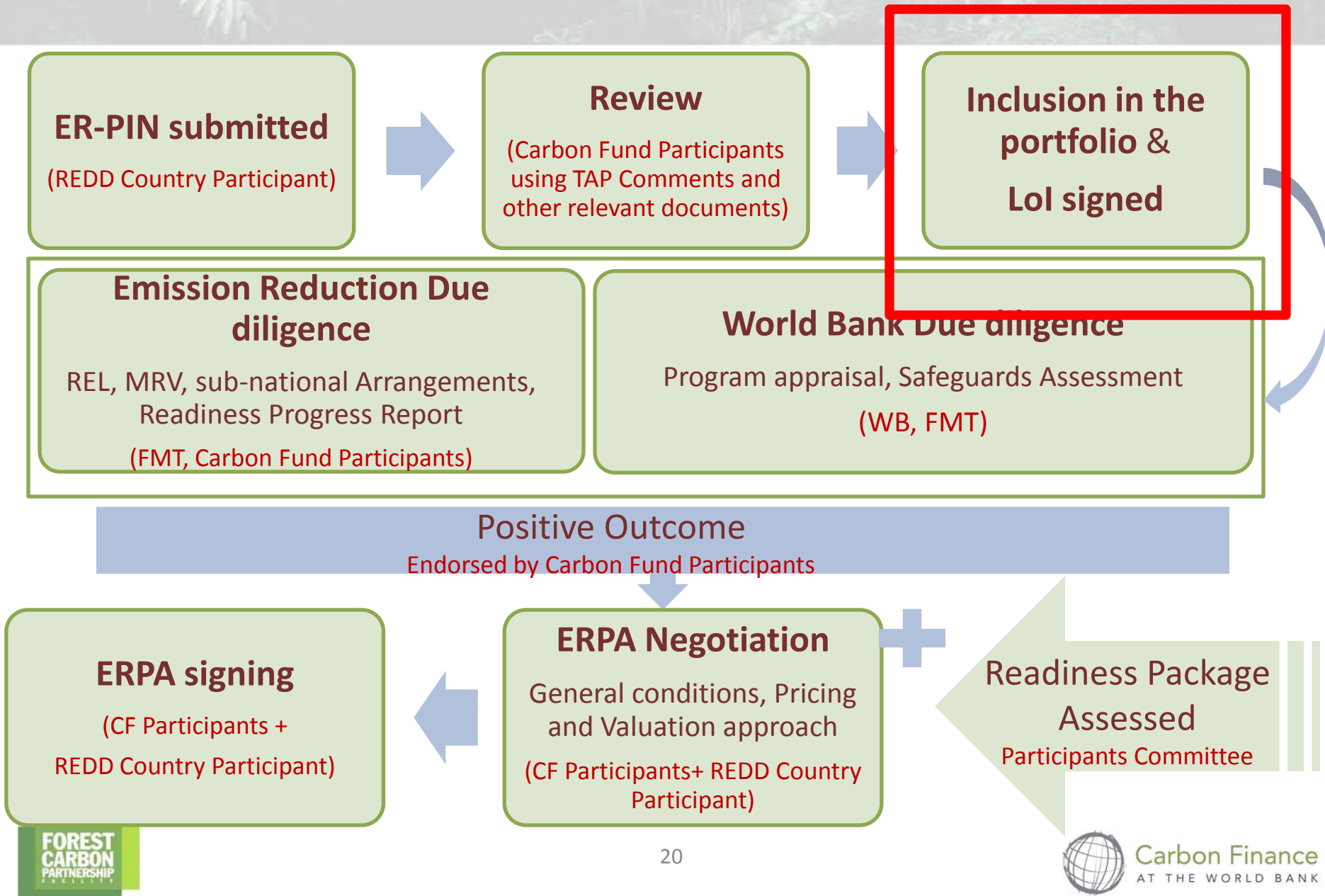
Step 5: The Carbon Fund Participants may request the FMT to establish an Ad Hoc Technical Advisory Panel (TAP) to assist them in reviewing the ER-PIN

Would the Fund Participants decide this on a case-by-case basis or can some general guidance be provided on when a TAP would be required and what the scope of their review would be?

Role of TAP- discussion

- If a TAP would be established, which role is envisioned for TAP?:
 - Ensure consistency of ER-PIN with the R-PP and readiness progress;
 - Provide feasibility/risk assessment of the ER-Program and its performance;
 - Independent review of specific issues/aspects of the proposed ER-Program as requested by the Carbon Fund Participants;
 - Other?
- Is a TAP review required for each ER-PIN submitted?
- Budget implications and allocation

Proposed business process - outline



Proposed business process – Inclusion

Inclusion in the portfolio & Letter of Intent signed

Step 6: The Tranche Participants make their decisions regarding inclusion of the proposed ER Program into their portfolio

Step 7: If included, the Tranche Participants approve a budget allocation for the preparation of a carbon finance transaction

Step 8: The Trustee and the submitting country sign the Letter of Intent

Proposed business process – discussion

Inclusion in the portfolio & Letter of Intent sign

Step 6: The Tranche Participants make their decisions regarding inclusion of the proposed ER Program into their portfolio

Step 7: If included, the Tranche Participants approve a budget allocation for the preparation of a carbon finance transaction

Is it OK to consider that inclusion means budget allocation to the country and the Bank, and authorization to Trustee to sign a Letter of Intent? This would basically combine step 6 and step 7

Step 8: The Trustee and the submitting country sign the Letter of Intent

Budget allocation- discussion

- How should the budget be allocated

Budget item	Budget allocation
World Bank	Actual costs (with reporting every 6 months on progress and expenditures)
<ul style="list-style-type: none">• World Bank due diligence	
<ul style="list-style-type: none">• TAP / Independent review	
World Bank and/or Program Entity	Flat budget allocation OR Flexible based on country / size / complexity of the ER Program?
<ul style="list-style-type: none">• Program development, e.g., preparation of ER Program documentation, stakeholder consultations etc.	

Proposed business process – discussion

Inclusion in the portfolio & Letter of Intent signed

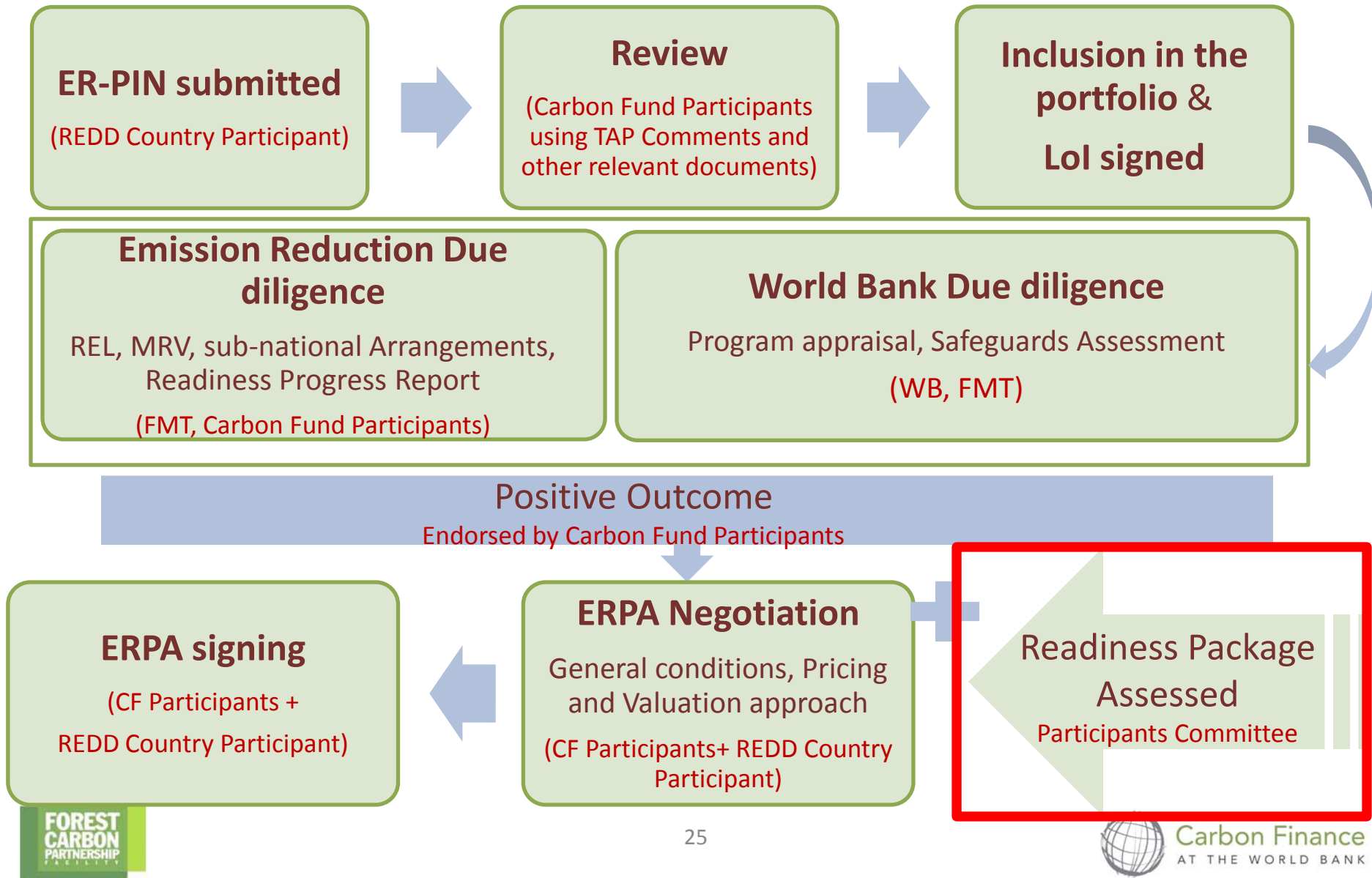
Step 6: The Tranche Participants make their decisions regarding inclusion of the project in the REDD+ ER Program into the portfolio

Step 7: If included, the Tranche Participants approve a budget

Step 8: The Trustee and the submitting country sign the Letter of Intent

What is covered by the LoI?
To be discussed at next session
on legal issues

Proposed business process - outline



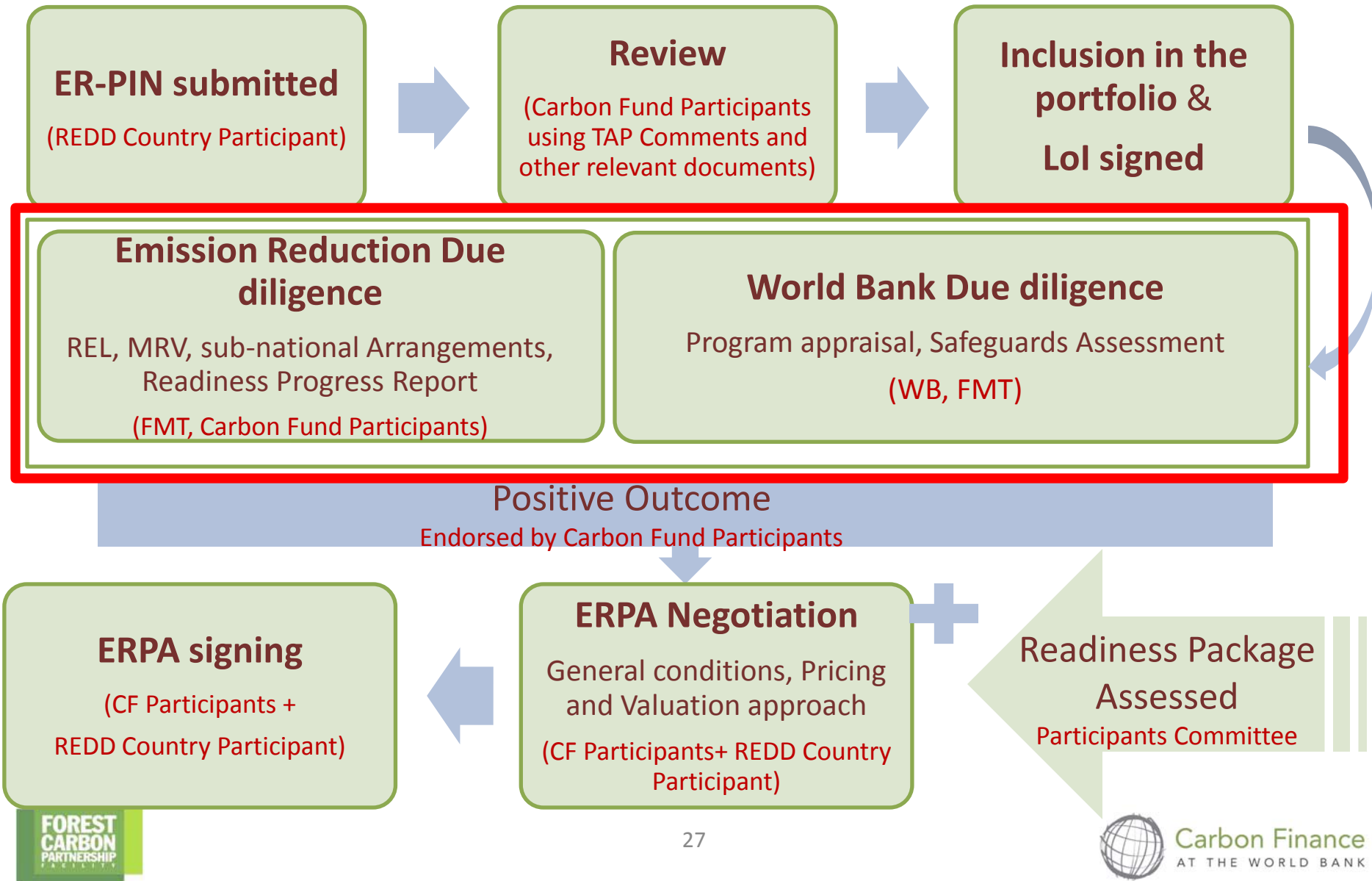
Proposed business process –R-Package

R-package assessed

Step 9: The FCPF Participants Committee, based on the information available, assesses whether the submitting country has made sufficient progress towards REDD+ Readiness to enter into an ERPA with the Trustee of the Carbon Fund

The diagram features a central blue rounded rectangle containing the text for Step 9. To the left of this rectangle is a light blue square, and to the right is a large light blue arrow pointing towards the right. The entire content is enclosed within a light green rounded rectangular border.

Proposed business process - outline



Proposed business process –due diligence

Due diligence

Step 10: The World Bank performs its due diligence as required by the applicable Operational Policies and Procedures, including on environmental and social aspects, and in accordance with the standard internal procedures.

The World Bank also advises the submitting country on ways to improve the quality of the ER Program during design and/or implementation, as appropriate

Proposed business process –discussion

Due diligence

Is some kind of emission reduction due diligence required as the basis for the CF Participants to make their final decision on the Program?

If so, is the ER-PIN and the other information mentioned in step 9 sufficient for the Fund participants to make a decision or is more needed? (for example a 'ER Program document')

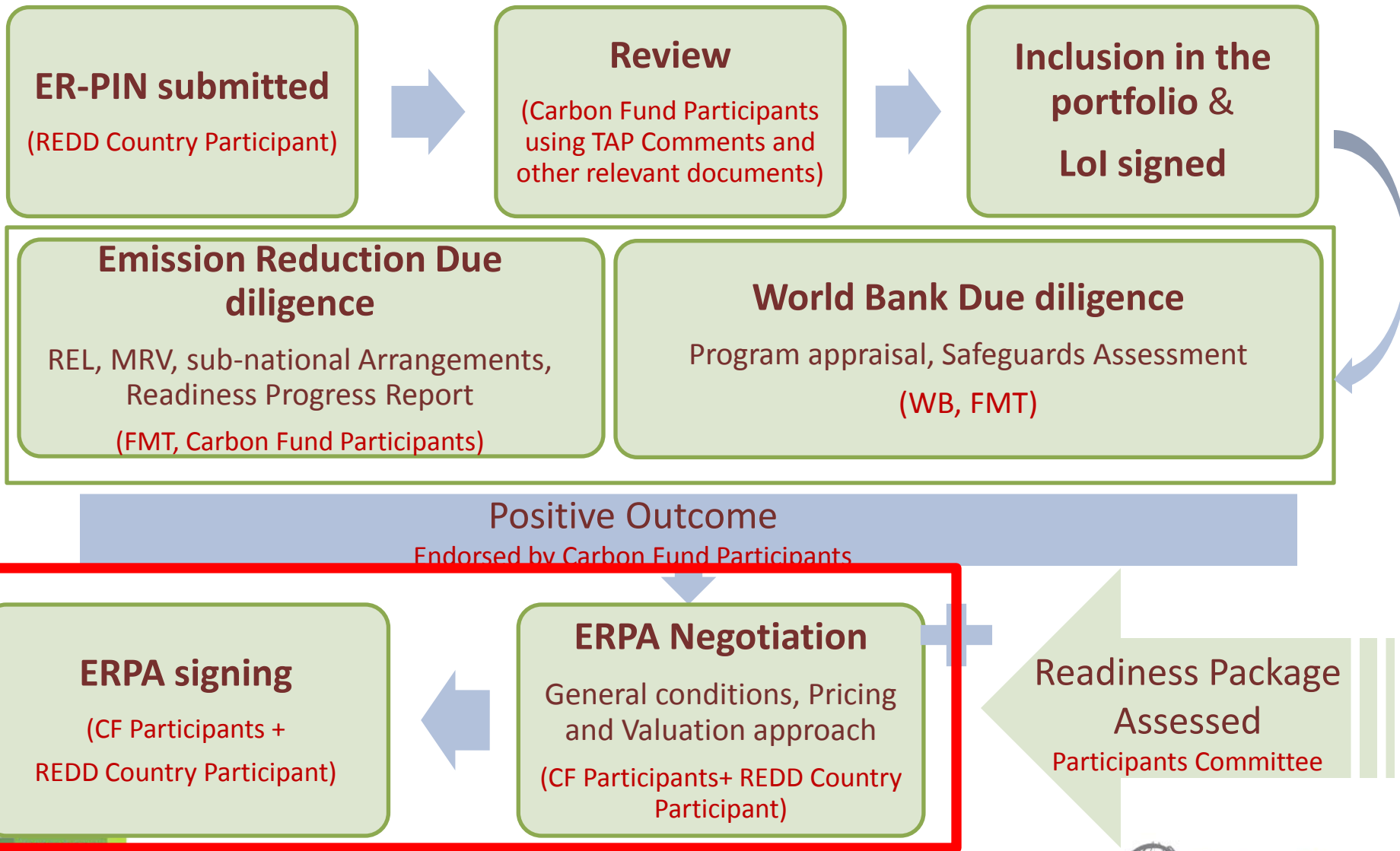
If more is needed, what should be covered in the document(s) and who is paying for the preparation ?

World Bank performs due diligence required by the Policies and Procedures on social aspects, in line with the standard procedures. The Bank also advises the country on ways to improve the quality of the ER design and/or implementation as appropriate

ER Program document- discussion

- ER Program document could contain further information on the implementation of the methodological framework and the ER Program characteristics defined in the Issues Note
 - Other subjects to be covered in the document?
- Should such a document be independently assessed ('validation')?
- Costs and budget allocation
- What is the process and are the criteria for the CF Participants to make the final go / no go decision on an ER Program?

Proposed business process - outline



Proposed business process – ERPA negotiation

ERPA negotiation and signing

Step 11: The REDD Country Participant continues to develop the ER Program, based on inputs received from various parties, as appropriate, and submits its final ER Program document to the FMT

Step 12: The Trustee drafts an ERPA for this particular ER Program, which is sent to the submitting REDD Country Participant and the relevant Tranche Participants

Step 13: The REDD Country Participant and relevant Tranche of the Carbon Fund come to an agreement on the terms of the ERPA

Step 14: The REDD Country Participant or its approved entity and the Trustee of the Carbon Fund sign the ERPA

Proposed business process – ERPA negotiation

ERPA negotiation and signing

Step 11: The REDD Country Participant continues to develop the ER Program, based on inputs received from various parties as approved and submit the final ER Program document for FM

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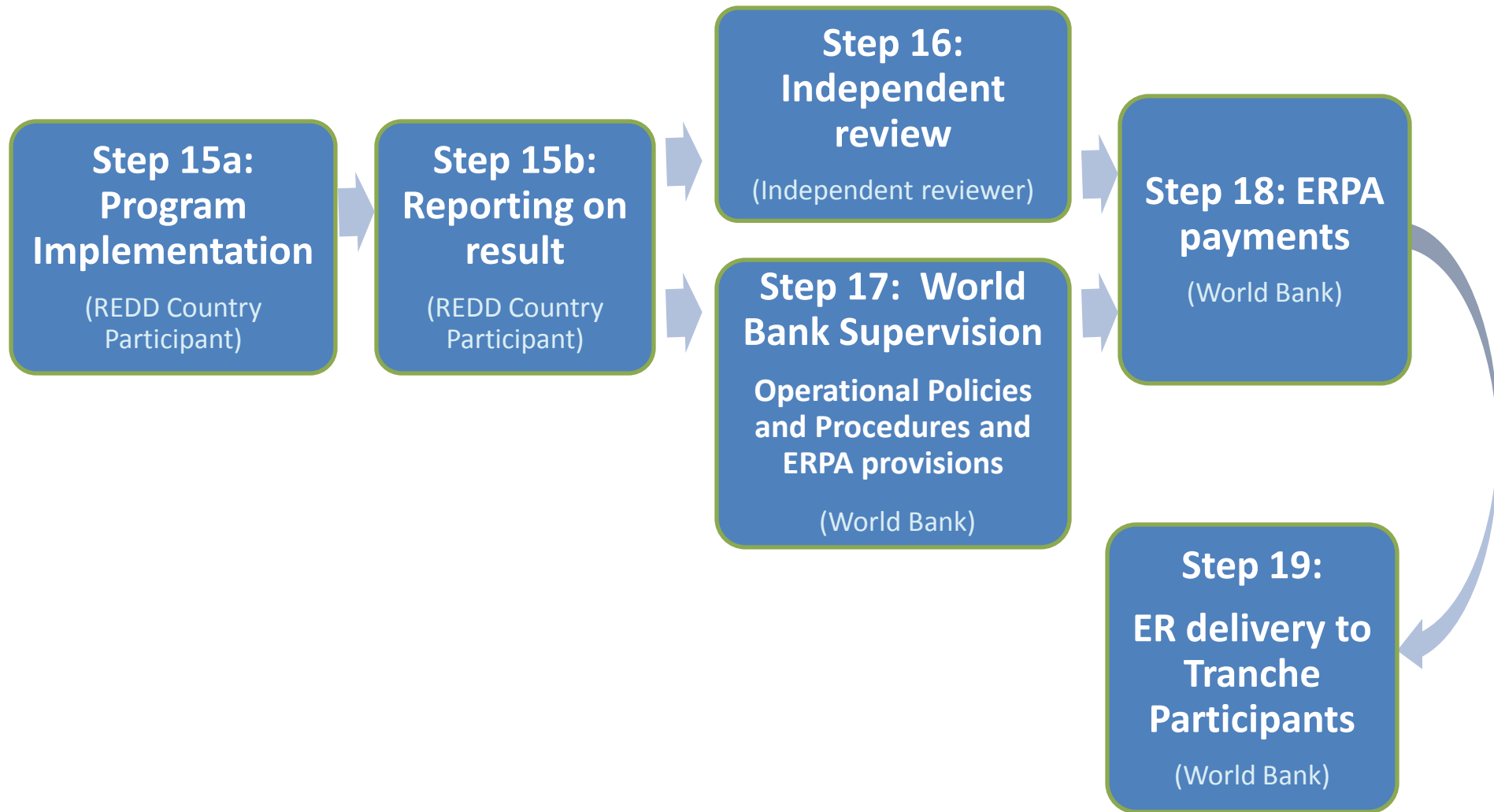
Step 14: The REDD Country Participant or its approved entity and the Trustee of the Carbon Fund sign the ERPA

What can be done by the Trustee to facilitate the ERPA process, e.g. disseminate knowledge/organize workshops?

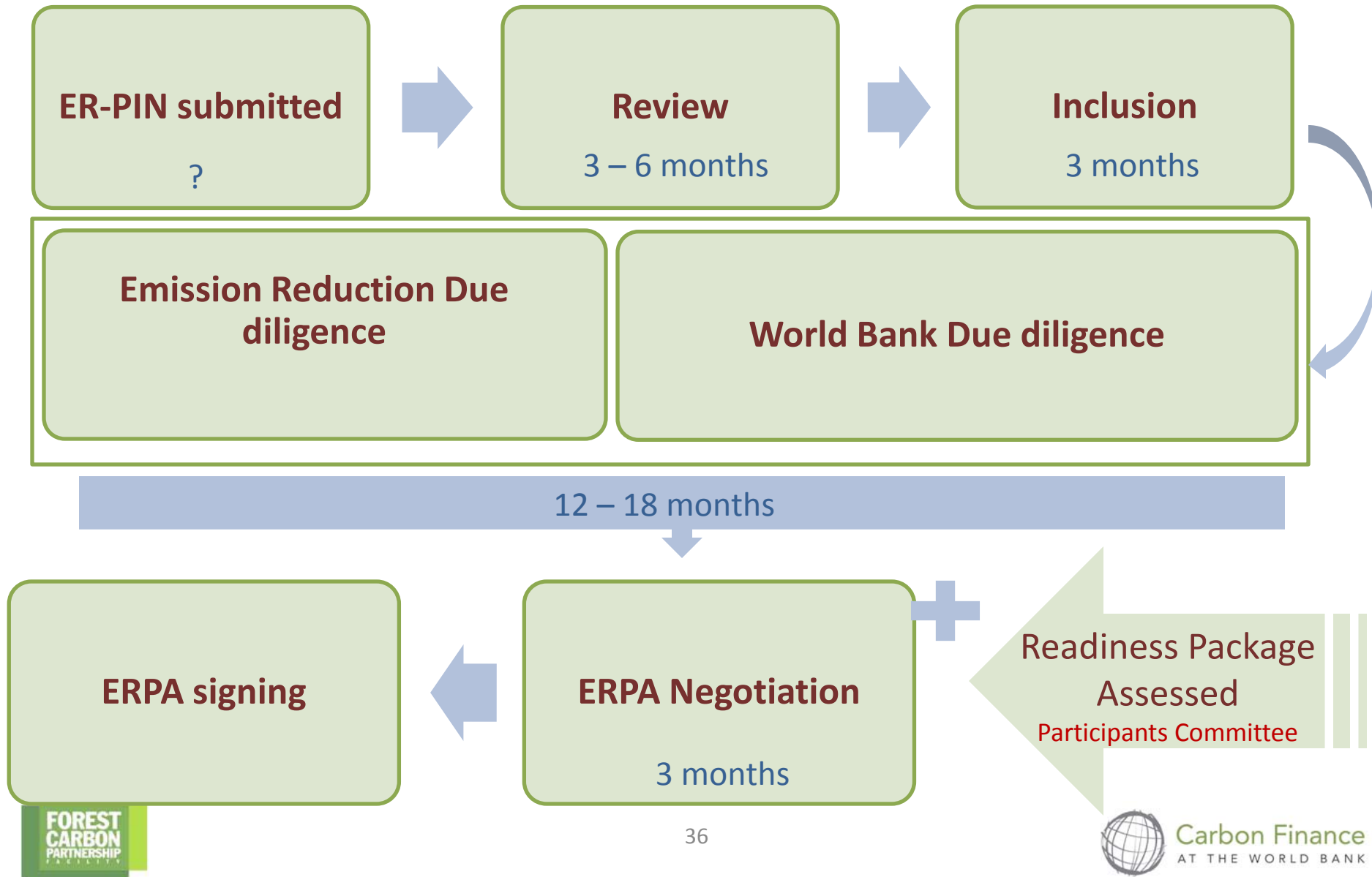
ERPA facilitation- discussion

- Principle: World Bank must be an honest broker between seller and buyer, while fulfilling its obligations as trustee for the Carbon Fund
- Proposal: To adopt measures to level the playing field between seller and buyer (mainly to reduce the asymmetry in knowledge and thus capacity to negotiate), e.g.,
 - Pre-ERPA negotiations, information sessions or workshops, including independent third parties;
 - Dissemination of adequate information on the FCPF in the appropriate language(s);
 - Other?

Proposed business process – after ERPA



Proposed business process – expected timeline



Proposed business process – expected timeline

