



Forest Carbon Partnership Facility

ERPA Elements

FCPF Carbon Fund Meeting – Third meeting (CF3)

Asuncion, Paraguay

March 24 and 26, 2012

Overview

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- II. What is an Emission Reduction?**
- III. How IBRD Carbon Funds Work**
- IV. Key ERPA Elements (overview)**
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 - **General Conditions**
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- V. Additional Elements of FCPF ERPA**

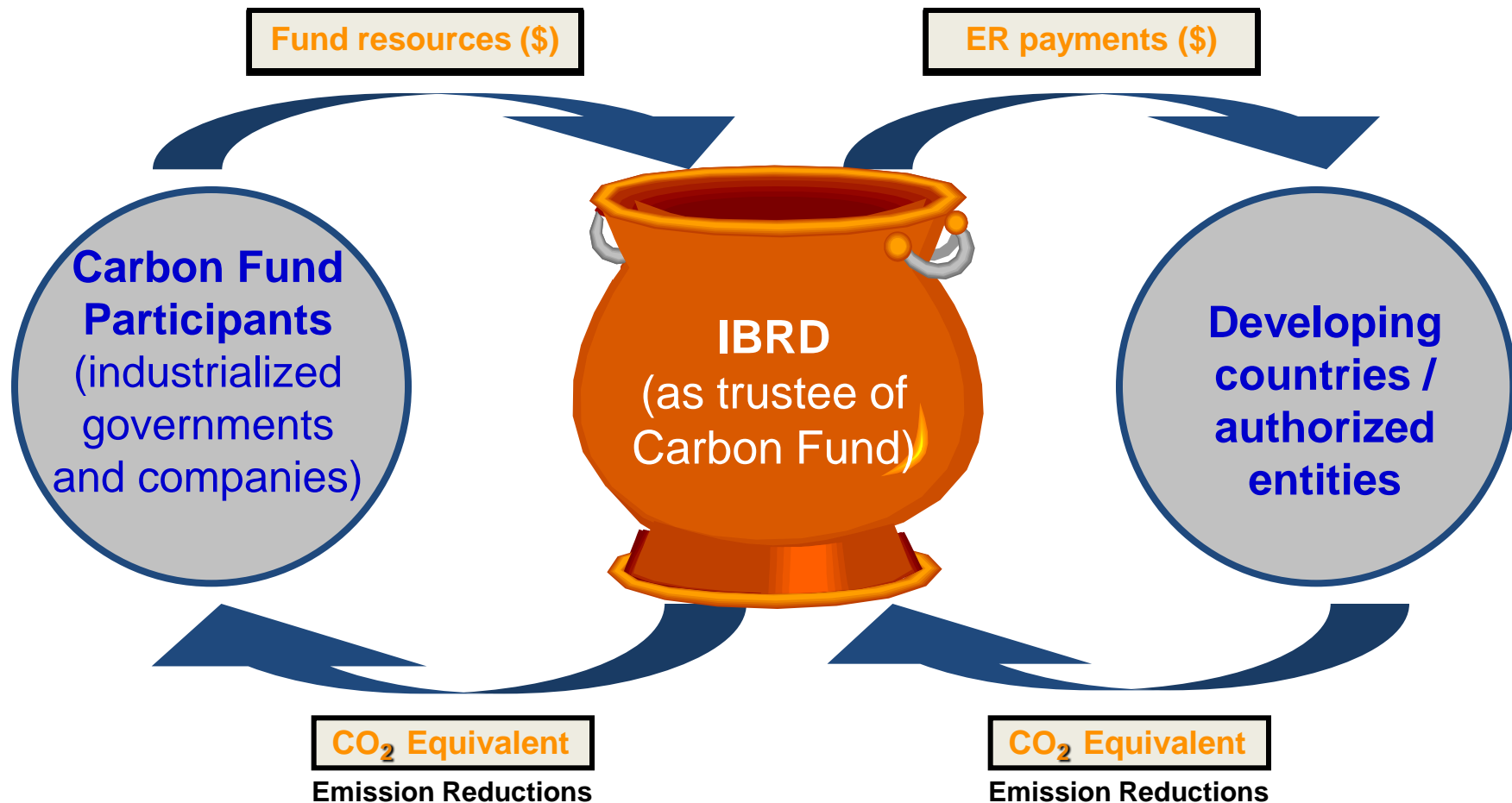
What is an ERPA?

- Agreement between **Seller** and **Buyer** for the sale and purchase of an agreed amount of emission reductions (ERs) generated by an ER Program during a certain time period
 - **Seller**: REDD Country Participant / authorized entity
 - **Buyer**: International Bank for Reconstruction and Development (IBRD; as trustee of the FCPF Carbon Fund)
- **The purpose of an ERPA is to...**
 - Provide carbon finance to an ER Program in return for ERs
 - Determine responsibilities, rights and obligations
 - Manage/allocate risk

What is an Emission Reduction (ER)?

- REDD+ activities under an ER Program prevent deforestation and forest degradation that would have otherwise occurred according to the reference emission level (REL)
- Each tonne of CO₂ equivalent (tCO₂e) the emission of which has been prevented by such REDD+ activities represents one Emission Reduction (ER)
 - Depending on the methodological and pricing framework, additional benefits (non-carbon values) may be required
- Such ERs do not have to be eligible for compliance purposes under any existing or future domestic/regional/international compliance carbon market
 - e.g., the EU Emissions Trading Scheme or a potential new international climate change treaty

How IBRD Carbon Funds Work



Key ERPA Elements: Overview (1)

ERPA		
Commercial Terms	General Conditions	Additional Elements
<p>Include terms that specify the commercial aspects of a carbon finance transaction, <u>such as</u> ...</p> <ul style="list-style-type: none"> • Contract ER Volume • Additional ERs • Price • Advance Payment • Costs 	<p>Includes terms and procedures that specify the general terms and procedures that are applicable to every carbon finance transaction, <u>such as</u> ...</p> <ul style="list-style-type: none"> • Transfer of ERs • Payment for ERs • ER Program Cycle • Covenants, Representations & Warranties • Events of Default & Remedies • Governing Law & Dispute Resolution 	<p>Depending on methodological and pricing framework to be adopted by the PC:</p> <ul style="list-style-type: none"> • Benefit sharing • Additional benefits • Displacement • Reversals
Negotiable	Non-negotiable	

Key ERPA Elements: Overview (2)

ERPA

Annexes

Includes **templates and documents** to be used by the Seller in the ERPA implementation process, such as ...

- ER Transfer Schedule
- ER Transfer Form
- Sub-Project Agreement Requirements
- Environmental and Social Safeguard Plans

Commercial Terms (1)

I. Contract ER Volume

- The amount of ERs that the Seller is obligated to generate and transfer to the Buyer and that the Buyer is obligated to pay for
- The Contract ER Volume may only reflect certain % of the amount of ERs that is estimated to be generated by the ER Program over the term of the ERPA, allowing the Seller to sell additional ER volume to other interested entities
- The Contract ER Volume is expected to be generated and transferred to Buyer over the term of the ERPA in accordance with specific 'ER Transfer Schedule' as Annex to ERPA

II. Additional ERs

- Buyer may be allowed to purchase additional ERs, i.e., ERs generated by the ER Program in excess of Contract ER Volume

Commercial Terms (2)

III. Price

- Each ERPA specifies the price to be paid per transferred ER
- The pricing formula shall follow the policy guidance on pricing methodologies for ERPAs to be adopted by the PC

IV. Advance Payment

- Buyer may agree to make advance payment(s) to the Seller, i.e., prior to the transfer of any ERs
- Advance payment(s) may be capped at certain % of ERPA value and recovered through deductions from future ERPA payments for transferred ERs
- Disbursements may be linked to certain milestones
- Security may be required, e.g.
 - Letters of credit/bank or government guarantees

Commercial Terms (3)

V. Costs

- Costs related to the **preparation** of an ER Program , e.g.
 - For methodology/review/appraisal/validation/due diligence
- Costs related to the **implementation** of an ER Program, e.g.
 - For verification/supervision
- If not borne by Buyer/Seller alone, costs can be shared by:
 - Cost caps (for each set of costs)
 - Cost recovery discounts (applied to annual payments)

General Terms (1)

I. Transfer of ERs

- Transfer relates to ERs only (not to land or territories)
- Transfer through issuance of an invoice that documents the ER transfer and requests payment ('ER Transfer Form')
- Transfer includes all rights/titles/interests attached to such ERs
 - E.g., future ER types to which such ERs may be converted to

II. Payment for ERs

- Performance-based, i.e., payment to be made by Buyer upon transfer of ERs by Seller
- Advances (pre-payments) are possible
- Buyer may deduct from payments certain costs/unrecovered advance payment(s)

General Terms (2)

III. ER Program Cycle

- Various steps/processes an ER Program has to go through before it generates verified ERs
- An ER Program Cycle may include the following steps/processes:
 - Independent ex ante evaluation of an ER Program based on certain ER Program-related documentation (**'Validation'** in the CDM/VCS context)
 - Collection and recording by the Seller of all relevant data related to the generation of ERs under the ER Program in accordance with an MRV system (**'Monitoring'**)
 - Submission of annual reports by the Seller to the Buyer on the amount of monitored ERs generated under the ER Program during the preceding reporting period in accordance with MRV system (**'Reporting'**)
 - Independent ex post assessment of the annual reports to verify the actual amount of generated ERs in accordance with MRV system (**'Verification'**)

General Terms (3)

IV. Covenants

- Certain obligations to be implemented over the term of the ERPA
- By **Seller**, e.g.,
 - Proper implementation and operation of ER Program
 - Compliance with 'Environmental and Social Safeguard Plans'
- By **Buyer**, e.g.,
 - Contracting independent entities for Validation and Verification purposes

V. Representations and Warranties

- Certain statements made by one party and relied upon by the other party to be true and accurate
- E.g., full legal title to ERs free of any third party rights (Seller)

General Terms (4)

VI. Events of Default

- What constitutes an Event of Default?
 - For **Seller**, e.g.
 - ✓ Failure to transfer annual ER amounts as specified in 'ER Transfer Schedule' (Transfer Failure)
 - ✓ Material delay in project/program development
 - ✓ Failure to comply with 'Environmental and Social Safeguard Plans' or anti-corruption policies
 - ✓ Other material breach of ERPA
 - For **Buyer**, e.g.
 - ✓ Failure to make payment when due
 - ✓ Other material breach of ERPA
- Issuance of Default Notice allowing for certain cure period

General Terms (5)

VII. Remedies

- In case of a **Seller** Event of Default:
 - Reduction of Contract Volume
 - Termination
 - Cost recovery
 - Liquidated damages (only in case of an intentional breach)
- In case of a **Buyer** Event of Default:
 - Termination
 - Default interest
 - Liquidated damages (only in case of an intentional breach)

VIII. Dispute Resolution and Governing Law

- UNCITRAL Arbitration
- English law

Additional Elements of FCPF ERPA (1)

Depending on the methodological and pricing framework

I. Benefit Sharing

- Obligation of the Seller to share all or part of its revenues received under the ERPA with other stakeholders affected by the ER Program

II. Additional Benefits

- Benefits related and additional to the ERs (e.g., livelihoods, biodiversity)
- Additional Benefits could be addressed:
 - As part of the ER Program design; and/or
 - In a further Annex to the ERPA ('Additional Benefits Plan')

Additional Elements of FCPF ERPA (2)

Depending on the methodological and pricing framework

III. Displacement (Leakage) risk

- Risk that emissions occur outside of the ER Program area due to ER Program activities (for sub-national programs)

IV. Reversal (Non-Permanence) risk

- Risk that the tCO₂e sequestered in the forest is released after all through a reversal event (e.g., fire, logging)
- In order to guarantee the environmental integrity of transferred ERs and to minimize the non-permanence risk, the Seller and Buyer could agree on the use of, e.g.,
 - ER buffer accounts (i.e., certain % of generated ERs must be transferred to separate account to compensate for potential future reversal events)
 - Insurance products

Annexes to ERPA (1)

I. ER Transfer Schedule

- Schedule that stipulates certain ER amounts that are to be transferred following a certain reporting period

II. ER Transfer Form

- Invoice (template) under which the Seller documents the transfer of certain amounts of ERs to the Buyer and requests payment

III. Sub-Project Agreement Requirements

- Lists certain key provisions that are to be included in any sub-project agreement between the Seller and the implementing entity/ies

Annexes to ERPA (2)

IV. Social and Environmental Safeguard Plans

- Certain plans that specify certain activities and requirements for the ER Program to be in compliance with the World Bank's social and environmental safeguard policies, e.g.
 - Environmental Management Framework/Plan
 - Resettlement Action Plan
 - Indigenous Peoples Plan