

RODRIGO A. CHAVES  
Country Director, Indonesia and Timor-Leste

## Letter of Intent

September 20, 2017

Mr. Bambang Hendroyono  
Secretary General  
Ministry of Environment and Forestry  
Manggala Wanabakti Building  
Jl. Gatot Subroto, Jakarta

Dear Mr. Hendroyono,

*Letter of Intent: Potential Results-based Payment for Emission Reductions  
from the Indonesian Provincial Level REDD+ Emission Reductions Program in the Republic of  
Indonesia*

This letter (“**Letter of Intent**”) confirms the principal terms of understanding about the interest of the International Bank for Reconstruction and Development (“**IBRD**”), acting as the trustee (“**Trustee**”) of the Carbon Fund (“**Carbon Fund**”) of the Forest Carbon Partnership Facility (“**FCPF**”), in possible results-based payments for greenhouse gas emission reductions (“**ERs**”), resulting from the ‘Indonesian Provincial Level REDD+ Emission Reductions Program’ in the Republic of Indonesia (“**ER Program**”) described in your ER Program Idea Note (“**ER-PIN**”).

The IBRD and the Republic of Indonesia (“**Program Entity**”), represented by the Ministry of Environment and Forestry, agree that this Letter of Intent shall create a legally binding agreement between the IBRD and the Program Entity (together referred to as “**Parties**”). In the event that the Program Entity intends to be represented by a ministry other than the Ministry of Environment and Forestry to sign an Emission Reductions Payment Agreement (“**ERPA**”) for the ER Program with the Trustee, the Program Entity shall make such decision prior to the ERPA Negotiation Start Date (as defined in Clause 3.3 below), shall notify the Trustee promptly of such other ministry and shall ensure that such other ministry is fully aware of the Program Entity’s rights and obligations under this Letter of Intent. The Trustee understands and acknowledges that the ER Program will be managed by the Ministry of Environment and Forestry.

The Trustee has entered into this Letter of Intent in reliance upon the representation from the Program Entity that the Program Entity has the power and legal capacity to sign this Letter of Intent and to negotiate and execute an ERPA.

### 1. Transaction and Payment Arrangement

- 1.1 Without prejudging the outcome of negotiations under the Paris Agreement, and recognizing that modalities, procedures and guidelines for various aspects of implementation of the Paris

Agreement remain under development, the Program Entity intends to negotiate to sell and the Trustee intends to negotiate to pay, acting on behalf of the participants in the Carbon Fund of the FCPF, on a seniority basis, for ERs from the ER Program, measured in tons of carbon dioxide equivalent, free of all third party interests based on the price per ER to be agreed upon between the Parties, on the basis of the Pricing Approach for the Carbon Fund of the FCPF at the time that the Parties conclude negotiations of the ERPA (“**Contract ERs**”), provided that:

- (i) The Trustee shall not provide results-based payments for more than 22,000,000 (in words: twenty-two million) ERs from the ER Program (“**Maximum Contract Volume**”);
- (ii) The ER Program conforms to the World Bank environmental and social safeguards and promotes and supports the safeguards included in the UNFCCC guidance related to REDD+;
- (iii) The ER Program Reference Level, ER Program Monitoring System and ER Program Document are in line with the FCPF methodological framework, and World Bank “due diligence” is completed to the satisfaction of the Trustee;
- (iv) There is sufficient tranche capital available in the Carbon Fund of the FCPF to provide results-based payments for the Contract ERs;
- (v) All necessary approvals, including any necessary approvals by the IBRD’s management and the participants in the Carbon Fund of the FCPF, are obtained;
- (vi) An ERPA, satisfactory for the Trustee and the Program Entity, is executed between the Trustee and the Program Entity, subject to IBRD’s “General Conditions Applicable to Emission Reductions Payment Agreements for Forest Carbon Partnership Facility Emission Reductions Programs” dated November 1, 2014, as amended from time to time prior to ERPA signature; and
- (vii) Subject to Clause 1.1 above, the Tranche B of the Carbon Fund (“**Tranche B**”; currently contributing approximately 94% of overall funding to the Carbon Fund) shall retransfer the volume of Contract ERs to be contracted and paid for by Tranche B to the Program Entity and shall not prevent the Program Entity from using such retransferred Contract ERs to meet its nationally determined contribution under the Paris Agreement, as appropriate and as consistent with the applicable modalities, procedures and guidelines under the Paris Agreement.

## 2. Costs

- 2.1 Only in the event the Program Entity violates its obligations under Clause 3 of this Letter of Intent, the Trustee shall be entitled to request from the Program Entity reimbursement of all documented ER Program preparation costs incurred by the Trustee until the end of the Exclusivity Period (as defined below), up to a maximum amount of US\$ 650,000.00 (in words: six hundred and fifty thousand United States dollars) (“**Program Preparation Costs**”). These Program Preparation Costs include, but are not limited to, the costs incurred in relation to the preparation and review of the ER-PIN, initial ER Program assessment, including due diligence costs, preparation of the ER Program Document, and costs related to the negotiation and execution of the ERPA. For the avoidance of doubt, this Clause 2.1 shall not apply where ERPA negotiations fail, although conducted in good faith (as described in Clause 3.4 below), due to the disagreement of the Parties on any commercial terms of the ERPA (such as ER price, allocation of costs and provision of advance financing).

- 2.2 With the exception stipulated in Clause 2.1 above, the Trustee shall be responsible for all Program Preparation Costs incurred by the Trustee until the end of the Exclusivity Period (as defined below). The Trustee will share with the Program Entity information on the use of the Program Preparation Costs, as appropriate.

### 3. Exclusivity Period

- 3.1 Subject to Clause 3.2, Clause 3.3 and Clause 3.4 below and limited to the Maximum Contract Volume, the Program Entity agrees that for a period of twenty-four (24) months from the date of this Letter of Intent ("**Exclusivity Period**"), other than with the Trustee, the Program Entity will not:

- (i) Start any discussions or negotiations regarding the dealing in, sale of or results-based payment for any ERs, which are part of the Maximum Contract Volume (as specified under Clause 1.1(i) above), generated or to be generated by the ER Program with any person;
- (ii) Progress further any discussions or negotiations regarding the dealing in, sale of or results-based payment for the ERs, which are part of the Maximum Contract Volume (as specified under Clause 1.1(i) above), generated or to be generated by the ER Program with any person that may have already started and are still continuing at the date of this Letter of Intent; or
- (iii) Enter into an agreement with any other person regarding the dealing in, sale of or results-based payment for the ERs, which are part of the Maximum Contract Volume (as specified under Clause 1.1(i) above), generated or to be generated by the ER Program as a result of any such discussions or negotiations;

without the prior written consent of the Trustee.

- 3.2 Where the Program Entity has specified in the ER-PIN (or otherwise notifies the Trustee in writing) that it may offer ERs expected to be generated by the ER Program to entities other than the Trustee ("**Third Party Sale and Payment**") then Clause 3.1 shall not apply provided and to the extent that:

- (i) The Third Party Sale and Payment process is compatible with Clause 1.1 above, including, but not limited to, providing the Trustee with seniority over the delivery of the Maximum Contract Volume (as specified under Clause 1.1(i) above);
- (ii) The Program Entity keeps the Trustee reasonably informed regarding any aspect of the Third Party Sale and Payment process that could be or could become incompatible with Clause 1.1 above (e.g., regarding the Trustee's seniority over the delivery of the Maximum Contract Volume) and, if requested by the Trustee, will agree with the Trustee in good faith and implement measures to remedy such incompatibilities; and
- (iii) The Program Entity and the Trustee have agreed on any additional procedures reasonably required to address the use by the Program Entity of material or information held by the Trustee for the purposes of a Third Party Sale and Payment process.

- 3.3 The Parties agree that, following the submission of the ER Program Document to the Carbon Fund of the FCPF and provided that the Carbon Fund of the FCPF decides to proceed with ERPA negotiations (“**ERPA Negotiation Start Date**”), the Parties will use all reasonable endeavors to negotiate and execute an ERPA in good faith and on the basis of the terms of this Letter of Intent, within the remaining part of the Exclusivity Period (i.e. the period from the ERPA Negotiation Start Date to the end of the Exclusivity Period). In the event that the remaining part of the Exclusivity Period is less than ten (10) months (“**ERPA Negotiation Period**”), the Exclusivity Period shall extend to the end of the ERPA Negotiation Period.
- 3.4 Each Party shall be deemed to negotiate an ERPA in good faith as long as it conducts its negotiations in a fair and reasonable manner with a sincere intention to reach a final agreement with the other Party on the terms of the ERPA by the end of the ERPA Negotiation Period. For the avoidance of doubt, any reasonable disagreement on any commercial term of the ERPA (e.g. volume, price, etc.) or any substantial reduction of Tranche B’s overall contribution to the Carbon Fund shall not constitute bad faith.

#### 4. **Provision of Information**

To enable the Trustee to evaluate and consider the ER Program and to negotiate the ERPA, the Program Entity is responsible to provide all reasonable and relevant information and assistance required by the Trustee, its staff and its consultants.

#### 5. **Disclosure of Information**

All information disclosed by the Parties under this Letter of Intent shall be public, i.e., non-confidential, and be disclosed. In the event that either Party requests during the ERPA negotiations that the ERPA be treated as a confidential document, such requesting Party shall disclose its rationale for such request.

#### 6. **Carbon Fund Participant Payment Default**

- 6.1 The Program Entity understands that (i) the IBRD is not intending to provide results-based payment for any ERs from the ER Program personally or in its individual capacity but only as a trustee of the relevant tranche of the Carbon Fund of the FCPF and (ii) the obligations and liabilities of the Trustee under any ERPA will be limited to the assets of the relevant tranche of the Carbon Fund and that neither Trustee, IBRD, any of its affiliated entities, the participants of the relevant tranche of the Carbon Fund of the FCPF, nor any of their respective officers, directors, employees, partners, members or shareholders, will assume or will be subject to any personal liability for any of the obligations, claims or liabilities under or in connection with any ERPA.
- 6.2 The Program Entity further understands that any Payment obligations of the Trustee under or in connection with any ERPA will be limited to assets of the relevant tranche of the Carbon Fund of the FCPF, which consist primarily of the funding to be provided to the Trustee by the participants of the relevant tranche of the Carbon Fund of the FCPF. Under the FCPF Charter, participants of a tranche of the Carbon Fund of the FCPF are required to make Payment to the Trustee up to their respective contribution to the respective tranche of the Carbon Fund of the

FCPF upon periodic demands for Payment issued by the Trustee. In the event one or more participants of a tranche of the Carbon Fund of the FCPF fail to make Payment to the Trustee for whatever reason, the Trustee may not have sufficient funds available to meet its Payment obligations when due under the ERPA, in which case the Trustee will not have any liability whatsoever in connection with such lack of available funding.

## **7. Termination**

**7.1.** Unless the Parties otherwise agree, this Letter of Intent and the understandings it provides will terminate:

- (i) Upon execution of an ERPA between the Program Entity and the Trustee;
- (ii) If an ERPA is not executed prior to the end of the Exclusivity Period, and if applicable, upon reimbursement of Program Preparation Costs in accordance with Section 2 noted above; and
- (iii) If the Participants of the respective Tranche of the Carbon Fund of the FCPF decide not to proceed to negotiating an ERPA for the ER Program.

**7.2** If the ERPA Negotiation Period has not started within eighteen (18) months from the date of this Letter of Intent, the Trustee may, at its sole and absolute discretion, either terminate this Letter of Intent and the understandings it provides or extend the deadline provided in this Clause 7.2.

**7.3** In the event that there is indication of insufficient tranche capital available in the Carbon Fund of the FCPF to provide results-based payments for the Contract ERs, the Trustee shall notify the Program Entity accordingly and the Program Entity may terminate this Letter of Intent upon receipt of such notice with immediate effect and may start to negotiate Third Party Sale and Payment arrangements for the Contract ERs with other entities.

## **8. Governing Law and Disputes**

**8.1** This agreement will be governed and construed in accordance with English law.

**8.2** The Parties shall endeavor to settle amicably any dispute between them arising out of or relating to the Letter of Intent ("**Dispute**"). Upon the written request of either Party ("**Initial Request**"), the Parties shall meet promptly to consider the Dispute. If the Dispute has not been resolved by the Parties within sixty (60) days of the date of the Initial Request, the Parties may seek an amicable settlement of the Dispute by conciliation, which shall take place in accordance with the UNCITRAL Conciliation Rules as at present in force. The location of these conciliation proceedings shall be in Singapore, and the language shall be English. The Parties shall endeavor to reach agreement on the name of a sole conciliator, failing which either Party may request the Secretary-General of the Permanent Court of Arbitration to appoint the sole conciliator.

**8.3** Should either Party refuse to seek an amicable settlement by conciliation, or should the conciliation proceedings be unsuccessfully terminated, either Party may, by notice in writing to the other, refer the settlement of the Dispute to arbitration in accordance with the

UNCITRAL Arbitration Rules as at present in force. The location of these arbitration proceedings shall be in Singapore and the language shall be English. The appointing authority shall be the Secretary-General of the Permanent Court of Arbitration, and the number of arbitrators shall be one.

**9. Assignment**

Both Parties acknowledge that IBRD may agree to act as Trustee for other of its IBRD administered carbon funds. The IBRD may assign its rights under this Letter of Intent to IBRD acting as trustee of such other carbon fund(s).

**10. Immunities**

Nothing in this Letter of Intent shall be considered to be a waiver of any privileges and immunities of the IBRD or the Trustee.

IN WITNESS WHEREOF, the Parties hereto have caused this Letter of Intent to be duly executed and agree that it shall be binding and of legal effect from the date of this letter.

**On behalf of the International Bank for Reconstruction and Development, in its capacity as trustee of the Carbon Fund of the Forest Carbon Partnership Facility:**



\_\_\_\_\_  
 Authorized Signature  
 Name: Rodrigo A. Chaves  
 Title: Country Director, Indonesia and Timor Leste  
 Date: September 20, 2017

**On behalf of the Republic of Indonesia, represented by the Ministry of Environment and Forestry:**



\_\_\_\_\_  
 Authorized Signature  
 Name: Mr. Bambang Hendroyono  
 Title: Secretary General, Ministry of Environment and Forestry  
 Date: November 7, 2017