Forest Carbon Partnership Facility

Possible Extension of the Term of Funds

Eleventh Meeting of the Carbon Fund (CF11)

Washington DC, USA

October 6-8, 2014

Recap and Expectations

- At CF10 in June CFPs agreed on importance of discussing long-term future of the Carbon Fund
  - Agreed to discuss the Carbon Fund termination date
  - Role as a pilot mechanism for results-based payments for REDD+
  - Implications on length of ER Program implementation
- FMT Note on meeting page of FCPF website
- Expectations
  - Intended to facilitate discussion
  - Not expecting a decision or resolution at this meeting
  - Potentially a decision at a future meeting or by action without a meeting (requires positive agreement, not ‘no objection’)

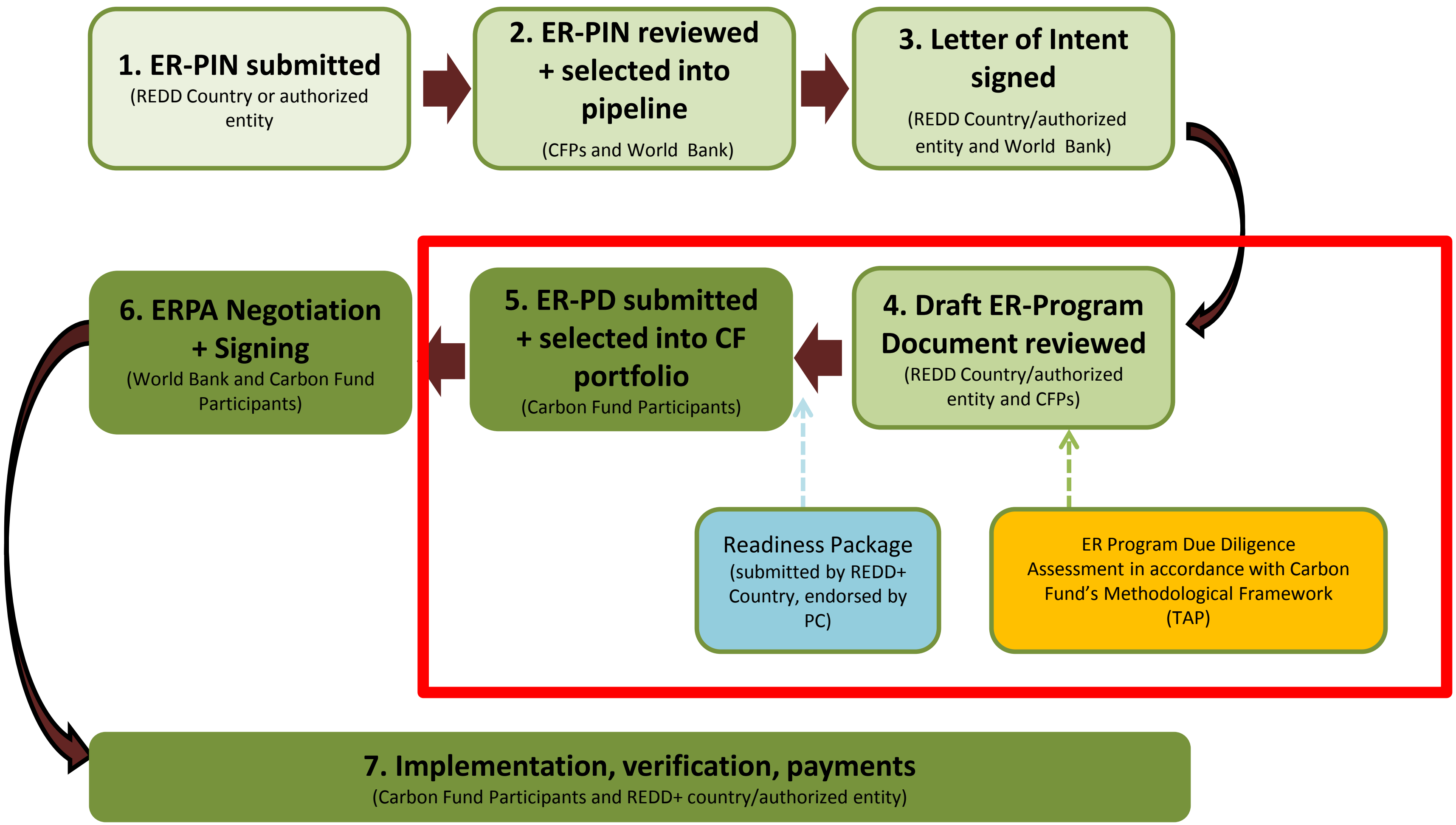
Current Term

- 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)
- Provided
  - a) Trustee continues to serve
  - b) Board of Directors of World Bank agrees

Current Status of Carbon Fund

- 11 possible ER-PINs in the pipeline
  - Chile, Costa Rica, DRC, Ghana, Mexico, Nepal, RoC, Vietnam (8)
  - Guatemala, Indonesia, Peru (3)
- Currently at Letter of Intent (LoI) stage or ER-PIN stage
- 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



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 indicated a preference to close ER-PIN pipeline at this meeting
  - Multiple verification events are difficult during a short ERPA term; may reduce confidence in ER volumes

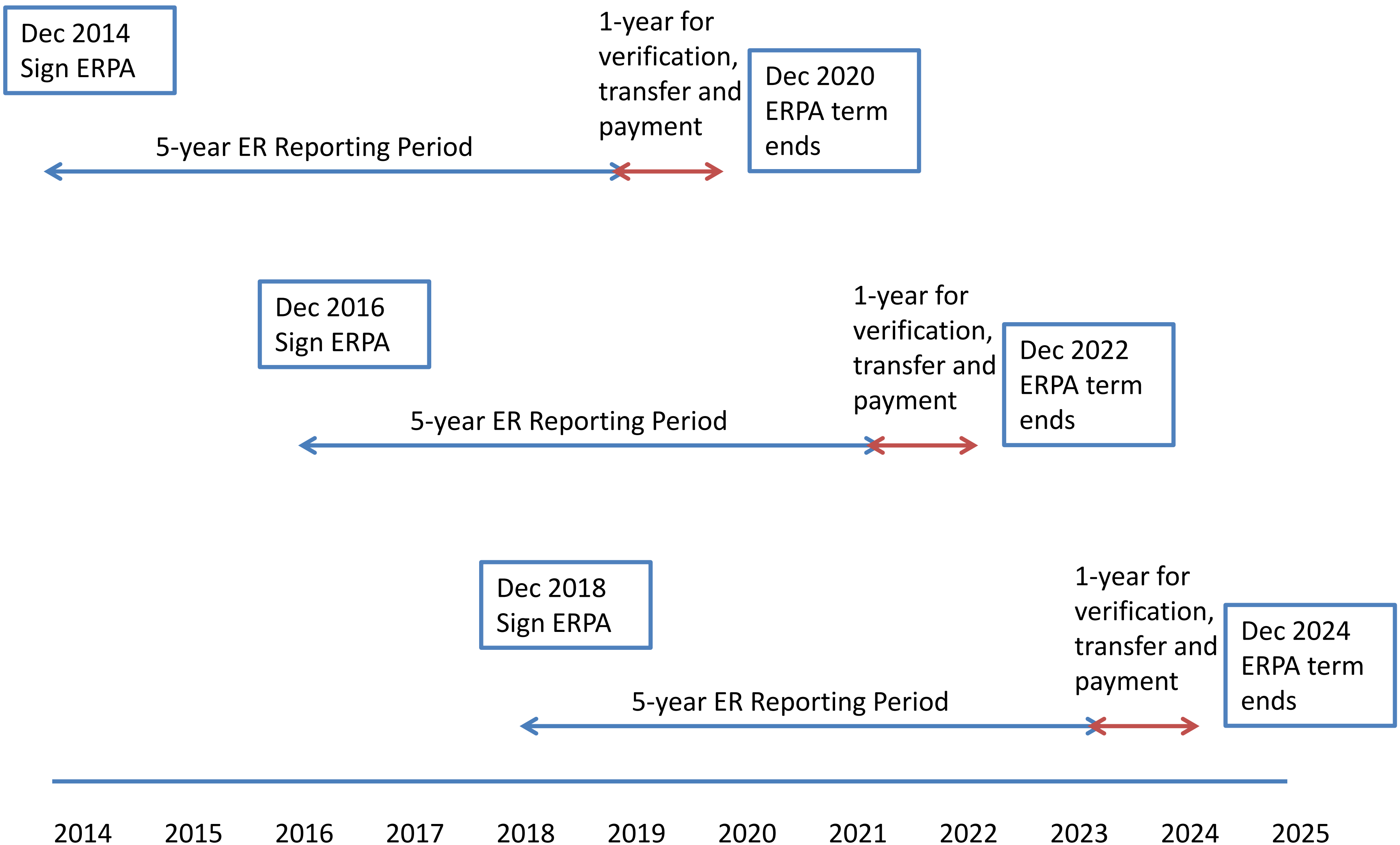
Implications for Carbon Fund (2)

- ERPA term ends at **<u>earlier</u>** 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
  - ERPA 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 ERPA 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



Costs for Carbon Fund

- If CF extended , but not RF, administration costs estimated at $0.5million 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)

Conclusions – Carbon Fund

- With current pipeline, FMT recommends that CFPs consider extending the term of the CF to at least December 2025
- If pipeline extended to December 2016, consider extending term of the CF a further two years, to December 2027

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 to when?
- Currently sufficient funding to provide $3.8million grants to all 44 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 44 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 not included
- With various assumptions, additional costs probably around $2million per annum

Conclusions – Readiness Fund

- No urgent pressing need to make a decision to extend the RF now
- Wiser to delay any extension of the RF until greater clarity?
- Subject to be raised for initial discussion at the upcoming PC/PA In Tanzania?

Carbon Fund - Restatement of Conclusions and Expectations

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THANK YOU!

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Expected timeframes

Milestones	Sample Country A (optimistic)	Sample Country B (realistic)
ER-PIN selected	April 2014	April 2014
LOI signed	June/July 2014	September 2014
WB Due diligence		
Country shares advanced ER-Program Document *(approx. 12-18 months to develop)*	By July 2015	By January 2016
CFP virtual review *(4 weeks?)*	August 2015	February 2016
TAP review *(approx. 3-6 months?)*	September - January 2016	March – August 2016
Self-assessment process of R-Package	By January 2016	By September 2016
WB Due Diligence		
R-Package endorsed by PC	April 2016	November 2016
ER-PD submitted	May 2016	December 2016
WB Due Diligence		
FMT review *(approx. 1 month)*	June 2016	January 2017
ER-PD selected *(approx. 2 months for CFPs to review before making decision)*	September 2016	April 2017
ERPA negotiated and signed *(approx. 3-6 month process)*	October 2016 - March 2017	May - October 2017
Implementation, Verification, Payments	**~3.75-4 years (~2.75-3 implement.)**	**~3.25-3.5 years (~2.25-2.5 implement.)**