Forest Carbon Partnership Facility

Consideration of Extending the Term of the FCPF Carbon Fund beyond 2020

Twelfth Meeting of the Carbon Fund (CF12)

Paris, France

April 28-30, 2015

Recap and Expectations

- At CF11 in October 2014
  - CFPs were generally supportive of an extension of the term of the CF beyond its current termination date of December 31, 2020
  - Most CFPs mentioned potentially extending up to December 2025 to ensure a reasonable implementation period for ER Programs
  - Most CFPs agreed on the importance of a decision on the extension at the next CF meeting
- Conference call with CFPs in March 2015
  - General consensus around an extension to December 2025
- Additional discussions with BP, Australia and Switzerland
- Expectations
  - Hoping for a decision at this meeting
  - Manage the portfolio
  - REDD Countries can have clear expectations on ERPA lengths

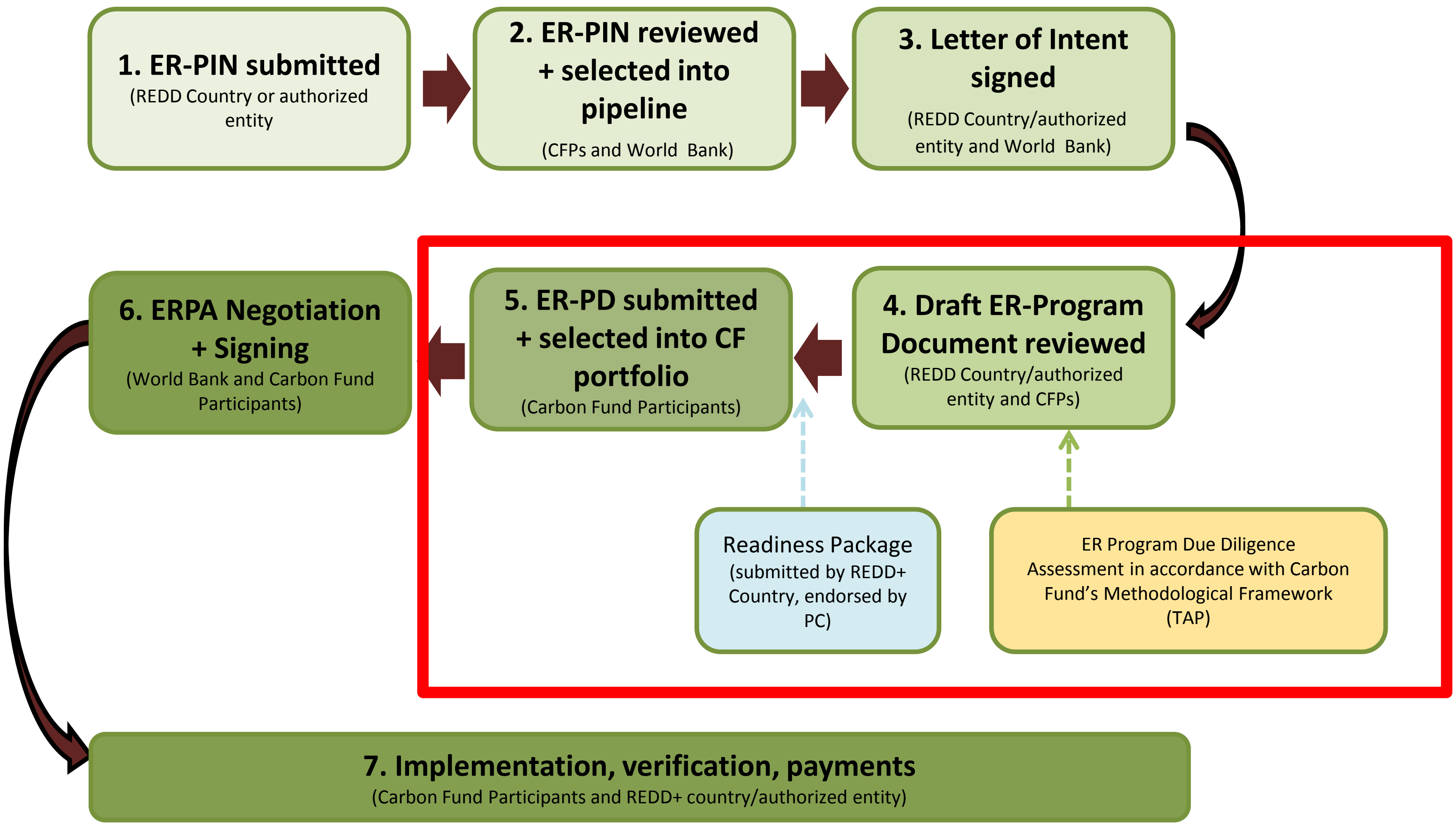
Current Term

- 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 Pipeline

- 11 Programs in the pipeline (at Letter of Intent (LoI) or ER-PIN stage)
  - Chile, Costa Rica, DRC, Ghana, Guatemala, Indonesia, Mexico, Nepal, Peru, RoC, Vietnam
- 9 Early Ideas at this meeting, then possibly 10 ER-PINs at October 2015 meeting
- 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 2015
- First draft 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 and lack of incentives for REDD countries
  - More ER-PINs selected with smaller volumes than originally anticipated
  - This over-programming can lead to unrealistic REDD Country expectations
  - 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 **earlier** 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)

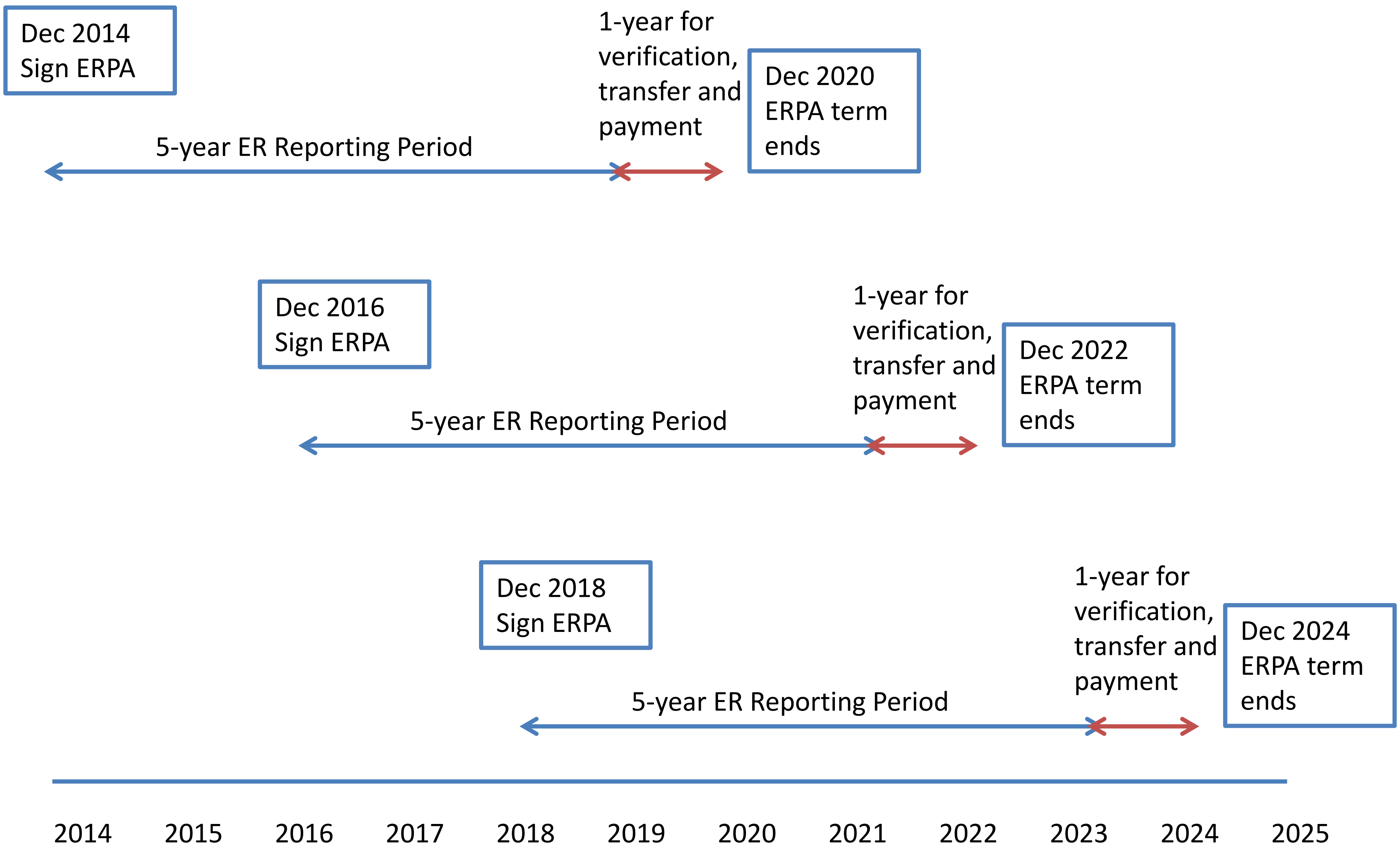
- World Bank 14 years of experience with 14 Carbon Funds; delays are common, almost inevitable; longer fund terms provide greater flexibility

- 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+, including GCF
  - 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
  - Need to impose interim deadlines for reaching certain milestones in the ER Program process
  - Such deadlines could be a trigger to drop a program from the pipeline or to change focus and prioritize other programs

- REDD Countries welcome an extension (not to slow down but because of the increased incentives)

Carbon Fund Timeline



Costs for Carbon Fund

- If CF extended , but not RF, administration costs estimated at $0.6 million per year
- If both funds are extended, Shared Costs charged to CF estimated at $0.6 million per year so total costs would be approximately $1.2 million for each year of extension
- 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)

Possible Reasons for Delay (1)

- Readiness Package
  - A large effort: national REDD+ strategy, RL, MRV system, ESMF, GRM, multi-stakeholder assessment
- Negotiating an ERPA
  - Legal negotiations can take time (like some LoIs)
  - Different ministries and lawyers
  - Differences over price, quantities, options can take time to resolve
  - Possible use of ERs for compliance with domestic commitments
- Program Implementation
  - World Bank Carbon Funds: almost 200 signed ERPAs: delayed starts to implementation from a couple of months to several years, or never
  - Temporary or permanent halts to implementation; Political reasons (coups, changes in government), conflict and security issues, social safeguards issues

Possible Reasons for Delay (2)

- Verification
  - World Bank experience of more than 350 verifications
  - Many go smoothly
  - Some require repeated site visits, requests for further data, corrections etc
  - Whole process of MRV in REDD+ at scale is new
- Safeguards delays, grievance redress, Inspection Panel
  - Possible requirement for additional safeguards in design stage
  - Serious grievance redress issues or Inspection Panel requests lead to delays

Staffing Capacity

- No relation between possible reasons for delay and FMT or World Bank Global Practice capacity
- 7 new positions within the FMT recently
- Senior Management currently considering a 3-year strategic staffing plan for both FMT and the Environment Global Practice to ensure adequate staff capacity
- Staffing plan to support current pipeline and possible increased pipeline

Financial Situation

- Committed funding approximately $450m, no more than $420m available for purchase of emission reductions
- Value of existing pipeline (best information): assuming a price of $5 per ton, the estimated capital requirement is between approximately $467 million and $701 million, depending on assumptions around the reversal buffer

Portfolio Simulation (Oct 2014)			
Reversal Buffer	40%	25%	10%
Aggregate ER Payments (11 ER programs)	$467m	$584m	$701m

- Value of Early Ideas (assuming a price of $5 per ton):
  - without reversal buffer >$500million
  - with 40% reversal buffer >$300 million

Green Climate Fund

- October 2014 Framework for REDD+ Results-based Payments adopted
- Total funding commitments $10.2 billion (December 2014)
- Number of different options, and varying combinations thereof, for future operations of the CF in relation to the GCF but none of these options should lead to a decision NOT to extend the CF
- The real question is “could the GCF take over the proposed pilot programs of the CF immediately post December 2020 effectively and efficiently or is it better that these pilot programs be completed by the FCPF by 2025?”
- Need clarity over the future model for REDD+ results-based payment mechanism in the GCF
- No assumptions of the working relationship between the GCF and the FCPF until more details of how GCF will be operational
- Could GCF provide much-needed investment funding?

Unanimous Consent

- BP Technology Ventures do not support an extension of the CF beyond 2020 per se
  - Wish to support other CFPs
  - Willing to support a resolution extending the CF provided they are allowed to exit the fund as if it were closing on December 31, 2020
  - FMT have agreed a draft resolution with BP on this basis
  - BP responsible for any ERPA payments for ERs delivered by December 2020
  - Date of deliveries of ERs is unknown, therefore have to assume no funds are available from BP for ERPA payments
  - Novation of BP's *unused* contribution could solve this issue
- Australia and Switzerland not present at this meeting but both have supported an extension of the fund by email and are prepared to support any terms that the other CFPs agree upon

Readiness Fund

- 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
- Mixed views at PA meeting in Arusha in October 2014
- In favor: to conclude readiness and reach Readiness Package stage
- But no urgent pressing need to make a decision to extend the RF now, can be revisited at a later stage
- If not extended Readiness Packages for CF countries could not be endorsed after December 2020

Conclusion and Expectations

- FMT recommends extending the term of the CF to December 2025
- Expectations
  - Hoping for a decision at this meeting

THANK YOU!

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