



## Report on Quality at Entry and Next Steps to Complete Design for Contribution to the World Bank's Forest Carbon Partnership Facility

### A: AidWorks details *completed by Activity Manager*

<b>Initiative Name:</b>	<b>Global Partnerships</b>		
<b>AidWorks ID:</b>	<b>INH473</b>	<b>Total Amount:</b>	<b>US\$10 million (A\$11.7 million)</b>
<b>Start Date:</b>	<b>22 November 2007</b>	<b>End Date:</b>	<b>30 June 2012</b>

### B: Appraisal Peer Review details *completed by Activity Manager*

<b>Ratings prepared by:</b>	Ratings prepared by Activity Manager ( ) based on World Bank peer review information, and reviewed by Policy Manager and Director, GEG.
<b>Initiative details</b>	<p>The Global Initiative on Forests and Climate aims to facilitate significant and cost effective reductions in greenhouse gas emissions in developing countries through reductions in deforestation, encouraging reforestation and the promotion of sustainable forest management.</p> <p>From the GIFC's Strategic Implementation Plan, the GIFC will meet the above needs through four approaches, including:          "improving global understanding and coordination of efforts to reduce emissions through avoided deforestation and encouraging reforestation, including through incentive based pilot approaches."</p> <p>Under Global Partnerships, Australia will form partnerships with international organisations to implement programs that directly or indirectly reduce emissions from deforestation and forest degradation.</p> <p>The first partnership to be announced under the GIFC is with the World Bank on the Forest Carbon Partnership Facility (FCPF). Other partnerships to follow may include the Centre for International Forestry Research (CIFOR) and key multilateral and international organisations.</p> <p>The partnership with the World Bank, as the first and central partnership, is assessed under this QAE Report. Other potential partnerships under this Global Partnerships initiative shall be individually assessed prior to funding to ensure partners' quality standards meet AusAID's requirements.</p>
<b>Rationale for not conducting internal appraisal for the FCPF</b>	<p>The World Bank has conducted an extensive multilateral peer review process, described in the next section, and has sent AusAID the minutes and comments from this process. On advice from Operations Policy Management Unit, it is therefore not warranted to duplicate this process with an internal appraisal.</p> <p>The GIFC Interdepartmental Steering Committee, which provides a mechanism for whole-of-government governance of the initiative (made up of DEW, DFAT, AusAID, DAFF, PM&amp;C plus invited participation of DOFA and Treasury), has endorsed the concept of Australian funding to the FCPF (in place of an AusAID Concept Peer Review).</p>

**B: Appraisal Peer Review details** *completed by Activity Manager***Description of external appraisal process**

The FCPF was submitted to a formal review and meeting of all Operational Vice-Presidents (OVPs) of the Bank Group on July 11 2007. The OVP review, chaired by the Managing Director of the Bank Group, brought together the various perspectives of senior management, in order to decide if the Bank should proceed with the Facility, and with what modifications, before seeking the approval of the Executive Directors.

The OVP review received written comments on the FCPF draft note from the following World Bank units: Concessional Finance and Global Partnerships, Development Economics and Chief Economist, Africa Region, Europe and Central Asia Region, Middle East and North Africa Region, Latin America and the Caribbean Region, South Asia Region, Poverty Reduction and Economic Management Network, Operations Policy and Country Services, and the World Bank Institute. Comments were also received from the International Finance Corporation and the Global Environment Facility. Key issues raised are addressed below

The FCPF was approved at the meeting of the Board of the World Bank on 25 September 2007.

A Carbon Finance Steering Group (CFSG) has been established by the Bank to follow up suggestions from the OVP review. This group is composed of representatives from various Bank units, such as Finance and Risk Group, Trust Funds Division, Trust Fund Quality Assurance and Compliance Group, Global Programs and Partnerships, Sustainable Development Resource Management Unit, Cofinancing and Project Finance Unit, Environmental and International Law, Office of Ethics and Business Conduct and the Carbon Finance Unit.

The CFSG has been moving forward on the key issues brought up during the OVP review, including the governance of the FCPF, the role of the World Bank and its different units, managing potential conflicts of interest, how to guarantee transparency in the design and implementation of the Facility and operational aspects of the Facility. They continue to meet regularly.

The World Bank hosted a Technical Design Workshop, 18-20 July in Paris, with a follow-up meeting on 12-13 November 2007 in Washington DC, to discuss the governance, processes, assistance mechanisms and technical issues of the FCPF with potential participants. Australia participated in these meetings and our comments on governance arrangements have been incorporated. The discussions on the Charter of the FCPF are ongoing, and some processes will be determined by the main decision making body of the FCPF (the Participants' Committee) once the FCPF is launched, which is scheduled for UNFCCC COP13 in Bali, December 2007.

The documents used by the Activity Manager to produce the ratings below are:

- Minutes of OVP Meeting, (July 11 2007, attached)
- The FCPF Term Sheet (25 July 2007, attached)
- Summary of the World Bank Group Peer Review Process of the FCPF (24 August 2007, attached)
- World Bank, "Proposal for a Carbon Partnership Facility and a Forest Carbon Partnership Facility", 4 September 2007
- Minute from Office of Jim Hagan, Executive Director, (18 October 2007, attached), noting Board approval.
- GIFC Concept Note on FCPF to the Steering Committee, seeking SC approval of an Australian contribution.

**C: Quality Rating Assessment against indicators**

completed by Activity Manager

	Rating (1-6) *	Explanation	Actions to improve
1. Clear objectives	5	<ul style="list-style-type: none"> <li>• The objectives of the FCPF are:               <ul style="list-style-type: none"> <li>- To assist Eligible REDD Countries in their efforts to reduce their emissions from deforestation and/or forest degradation by providing them with financial and technical assistance in building their capacity to benefit from a future REDD incentive system;</li> <li>- To pilot a performance-based payment system for Emission Reductions generated from REDD activities and, where applicable, for Co-Benefits;</li> <li>- To build public and private partnerships among Participants and the Relevant International Organizations, Relevant Non-governmental Organizations and Relevant Private Sector Entities to test new financial mechanisms for forest management and biodiversity protection; and</li> <li>- To disseminate broadly the knowledge gained in the development of the Facility and implementation of Readiness Action Plans and Emission Reduction Programs.</li> </ul> </li> <li>• The objectives of the FCPF sit within the umbrella Global Forest Partnership, which has the following broad objectives:               <ul style="list-style-type: none"> <li>- Reduced forest loss: 300 million hectares of production forests in developing countries sustainably managed and under independent verification</li> <li>- Mitigated climate change: One billion tons of CO<sub>2</sub> retained in forests as a result of reduced deforestation</li> <li>- Secured environmental services: 50 million hectares of new protected areas created and 120 million hectares of existing protected areas under effective management.</li> <li>- Reduced poverty: Improved livelihood of 500 million poor forest-dwelling or forest-dependent people in developing countries, on the basis of sustainable forest management and/or agro-forestry</li> </ul> </li> <li>• These are consistent with the GIFC objectives as outlined in the GIFC Strategic Implementation Plan. By contributing to the FCPF, GIFC aims to benefit from the World Bank's experience and ensure the FCPF is complementary to GIFC.</li> <li>• The FCPF Programs under the Readiness Mechanism will complement GIFC activities, either directly or indirectly, in Indonesia and PNG.</li> <li>• There is demand from forested developing countries for this assistance. This is reflected in their stances at international forestry and climate change meetings.</li> <li>• FCPF has received support from the G8 (Heiligendamm, June 2007), with contributions forthcoming from Japan (US\$10 million) and Germany (€40 million). Other donors are likely to contribute.</li> </ul>	No immediate action.

**C: Quality Rating Assessment against indicators***completed by Activity Manager*

2. M & E	4	<ul style="list-style-type: none"> <li>Monitoring and evaluation systems are yet to be developed, but will draw on the World Bank's extensive history in carbon finance funds. Input from REDD Participant Countries is ensured through majority membership of the Participants' Committee.</li> <li>Individual REDD country plans will be required to have a monitoring plan to receive endorsement from the Participants' Committee.</li> <li>The criteria for endorsement and other processes will be determined by the Participants' Committee, the Buyer Participants' Committee and the Annual Meeting of Participants.</li> </ul>	<p>No immediate action.</p> <p>Work with the World Bank to develop an overarching M&amp;E program for FCPF.</p>
3. Sustainability	4	<ul style="list-style-type: none"> <li>The FCPF is testing innovative approaches, and hence sustainability is not assured.</li> <li>The FCPF has a catalytic role with the expectation of graduating from ODA to private sector funding if the approaches are sustainable in the long term. However, there is not expectation that the approaches will be sustainable within the 5 year timeframe of the GIFC.</li> <li>The FCPF is focussed on learning-by-doing, so will work to improve the sustainability of REDD approaches over the lifespan of the Facility.</li> <li>The Facility is designed to assist countries with the required policy and institutional reforms necessary to conduct avoided deforestation.</li> </ul>	No immediate action.
4. Implementation & Risk Management	5	<ul style="list-style-type: none"> <li>In review, OVPs requested more detail on operational aspects of the Facilities, including how they can be expected to engage local people and communities in concerned countries. It was noted that this particular area is currently work in progress, due to the fact that each Facility attempts to break new ground and requires considerable consultation on operational issues and governance structures with a broad range of potential participants.</li> <li>As the size of the carbon finance business in the World Bank has grown to a significant amount (over US\$2 billion spread over several carbon funds), a lot has already been done to set up control systems for the fiduciary responsibilities of the World Bank.</li> <li>The FCPF involves no particular financial exposure, but the World Bank naturally is concerned about reputational and sustainability risks, and is considering further expansion of and strengthening of control mechanisms. Fiduciary risks are considered low.</li> <li>By its nature, the FCPF will be piloting new activities which have a high risk of not achieving all goals. Trialling new methods will inform future international frameworks on climate change.</li> </ul>	No immediate action.

**C: Quality Rating Assessment against indicators***completed by Activity Manager*

5. Analysis and lessons	6	<ul style="list-style-type: none"> <li>Members of the OVP Review noted that the design of the FCPF takes into account lessons learned from past activities in carbon finance.</li> <li>Poverty reduction is at the forefront of the FCPF's design requirements, and will be ensured by the involvement of aid agencies (such as AusAID) and REDD country governments.</li> <li>The World Bank has involved all necessary partners in formalising the FCPF, including environmental NGOs and REDD country governments.</li> <li>Avoided-deforestation is widely recognised as the central tool to reduce emissions from deforestation, improve the sustainability of use of forest resources and do so in a way that fairly compensates forest communities. Yet avoided deforestation is the least understood and developed tool. The FCPF is the leading move by any multilateral organisation or development bank to further global understanding.</li> </ul>	No immediate action.
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**\* Definitions of the Rating Scale:**

<i>Satisfactory (4, 5 and 6)</i>		<i>Less than satisfactory (1, 2 and 3)</i>	
6	Very high quality; needs ongoing management & monitoring only	3	Less than adequate quality; needs to be improved in core areas
5	Good quality; needs minor work to improve in some areas	2	Poor quality; needs major work to improve
4	Adequate quality; needs some work to improve	1	Very poor quality; needs major overhaul

**D: Next Steps** *completed by Activity Manager*

Provide information on all steps required to finalise the design based on <i>Required Actions</i> in "C" above, and additional actions identified in the peer review meeting	Who is responsible	Date to be done
1. Work to ensure membership for Australia of the Participants' Committee.	Global Env Group	Ongoing
2. Maintain active engagement on FCPF documentation, including the Charter and Participation Agreement.	Ceri Teather/ Alex Marks	Ongoing

**E: Other comments or issues** *completed by Activity Manager*

None.
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**F: Approval** *completed by ADG or Minister-Counsellor responsible for financial approval*

On the basis of the final agreed Quality Rating assessment (C) and Next Steps (D) above:

**QAE REPORT IS APPROVED**, and authorization given to proceed to:

**FINALISE** the design incorporating actions above, and proceed to implementation

or:  **REDESIGN** and resubmit for appraisal peer review

**NOT APPROVED** for the following reason(s):

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signed

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**Attachments:**

- File note – discussion with Chris Hoban, Principal Operations Advisor
- Minutes of OVP Meeting, (July 11 2007, attached)
- The FCPF Term Sheet (25 July 2007, attached)
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