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Report No: RES00177

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

Purchase / Sale of Emission Reductions (ER) to be generated under the Mai Ndombe ER Program

APPROVED ON 13-Sept-2018

TO

Ministry of Finance

Environment, Natural Resources & the Blue Economy

Eastern And Southern Africa

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ABBREVIATIONS AND ACRONYMS

AWBP	Annual Work and Budget Plan
BSP	Benefit Sharing Plan
CF	Carbon Fund
CO_2eq	Carbon dioxide equivalent
COPIL	National REDD Fund Steering Committee
CSO	Civil Society Organization
CU FIP	Coordination Unit Forest Investment Program
DRC	Democratic Republic of Congo
ER	Emission reduction
ERPA	Emission Reductions Payment Agreement
ERPD	Emission Reductions Program Document
ER-Program	Emission Reductions Program
FCPF	Forest Carbon Partnership Facility
FONAREDD	National REDD Fund
IPs	Indigenous Peoples
LIA	Local Implementation Agencies
LoI	Letter of Intent
MEDD	Ministry of Environment and Sustainable Development
MINEFI	Ministry of Finance
MoU	Memorandum of Understanding
MPTFO	Multi-Partner Trust Fund Office
NGO	Non-Governmental Organization
PDO	Project Development Objective
PIREDD	Integrated REDD Project
PMU	Program Management Unit
REDD+	Reducing emissions from deforestation and forest degradation in developing countries, including conservation, sustainable management, and enhancement of forest carbon stocks
WBG	World Bank Group

BASIC DATA

Product Information

Operation ID P160320	Operation Name Purchase / Sale of Emission Reductions (ER) to be generated under the Mai Ndombe ER Program
Product/Financing Instrument Investment Project Financing (IPF)	Geographical Identifier Congo, Democratic Republic of
Approval Date 13-Sep-2018	Current Closing Date 31-Dec-2025
Original EA Category Partial Assessment (B) (PAD Approval Package-13 Sep 2018)	

Organizations

Borrower	Responsible Agency
Ministry of Finance	Ministry of Environment and Sustainable Development

OPERATION STATUS

Project Development Objective (DO)

Original Development Objective

The Project Development Objective is to make payments to the Recipient for measured, reported and verified Emission Reductions related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (ER payments) in the Mai-Ndombe province, and to distribute ER payments in accordance with the agreed Benefit Sharing Plan.

Disbursement Summary (in USD million)

Source of Funds	Net Commitment	Disbursed	Undisbursed	% Disbursed

Policy Waivers

Does this restructuring trigger the need for any policy waiver(s)?	No

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I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. In April 2014, the Democratic Republic of Congo (DRC) was one of the first countries worldwide to submit an Emission Reductions Program Idea Note and be selected into the pipeline of the Forest Carbon Partnership Facility Carbon Fund (FCPF CF). Subsequently, the World Bank signed a Letter of Intent (LoI) with the Government of DRC for the purchase of up to 11 million tons CO2eq from the Mai-Ndombe Emission Reductions Program (Mai-Ndombe ER Program). The Mai-Ndombe Emission Reductions Program Document (ERPD) was developed over a period of two years in close and frequent consultation with local, national, and international stakeholders, including civil society, and indigenous peoples (IPs). In December 2016, the Mai-Ndombe ER Program became the first one to be selected into the portfolio of the FCPF Carbon Fund. The ERPD is available on the FCPF website[1]. Under the Mai-Ndombe ER Program, the World Bank, as the Trustee of the FCPF CF, will pay for ERs resulting from the implementation of the Program through the Ministry of Finance (the Recipient).

2. The ER Payment Agreement (ERPA) was signed on September 21, 2018, with the Ministry of Finance. Between ERPA signature and July 21, 2022, the Government of DRC worked towards meeting the agreed six conditions of effectiveness and legal covenant. On July 21, 2022, the sixth and last condition of effectiveness[2] proposed by the FCPF CF was met, achieving therefore eligibility to request an upfront advance payment.

3. As part of the six conditions of effectiveness, a US$ 5 million 'Support to the Operationalization of the Emission Reductions Payment Agreement Under the Mai-Ndombe ER Program' (OPERPA) has been approved (P170385) in September 2022, and became effective on January 31, 2024. The grant will enable the provision of technical assistance to the client and stakeholders to ensure an effective enabling environment to the operationalization of the ERPA.

4. The Legal Covenant on the revision of the ER Program Reference Level[3] to improve the accuracy of activity data on deforestation, forest degradation, and enhancement of forest carbon stocks in the reference period (2004-

[1] https://www.forestcarbonpartnership.org/sites/fcp/files/2016/Dec/20161108%20Revised%20ERPD_DRC.pdf

[2] The six conditions of effectiveness include: the submission of the Program's Letter of Approval; Action Plan on Reversal Management Mechanism; Terms of reference for the ER Program Management Unit; Action Plan on transfer Title to ERs; Evidence of the Client having secured funding of USD 2,200,000 to operationalize instruments for ER Program implementation; and Finalization of the Benefit Sharing Plan (BSP) which was the last condition to be met after the final BSP was presented to Mai-Ndombe stakeholders in Inongo (April 2022), validated at a national workshop in Kinshasa (May 2022), and received the non-objection from the FCPF donors (July 2022).

[3] Independent expertise consisting of the University of Maryland (GLAD laboratory), the Observatory of Satellite data of the Forests of Central Africa (OSFAC), and DRC's Department of Forest Inventory and Management (DIAF) were charged with the task of revising the Reference Level. The analysis relied on a probability-based sample of time-series imagery used as reference data to estimate changes in forest areas focusing on key forest types and related generation of CO2 emissions. Forest activity data and related emissions were quantified over the reference period (2004 to 2014) and a monitoring period (2017 to 2019) to determine the performance of the ER Program and related ERPA payments. Methodological aspects were discussed in a Seminar organized by DRC's MRV Platform in April 2020, and the related report was shared subsequently with stakeholders for a 2-week comment period. A second Seminar was organized with DRC's MRV Platform in October 2020 to share and discuss early results. The draft final report was shared with DRC stakeholders in December 2020 who subsequently convened through the DRC MRV Platform to consolidate the last comments and endorse the report and UMD's recommendations. This work resulted in revised activity data with increased accuracy and precision as confirmed by two renowned international independent experts. Hence, in March 2021, the FCPF was able to confirm that DRC revised th
e Reference Level accordingly in line with the ERPA Covenant. The activity data were used to revise the Reference Level, resulting in a reduction of the
Reference Level from 48,022,794 tCO2/year to 33,025,746 tCO2/year.

2014), was also met in March 2021, when the revised Reference Level was successfully approved. The revision process resulted in a decrease in the Reference Level from 48 million tCO2/year (at ERPA signature) to 33 million tCO2/year. The ER Program will generate fewer results under the more conservative revised Reference Level though the process was recognized as necessary to ensure the Program's environmental integrity.

5. The first Emission Reductions Monitoring Report (ERMR), outlining results achieved during the first Reporting Period of the ERPA (2019-2020), was submitted to FCPF Secretariat in March 2023, and is currently undergoing an independent third-party ER validation and verification financially supported by the FCPF Secretariat. The validation and verification of the ER Monitoring Report and its completion process is dependent on the number of findings raised by the third-party auditor and the efficiency and comprehensiveness of the responses provided by DRC. Once the process is completed, the Verification Report will allow the country to access the first ERPA payment subject to finalizing the remaining prerequisites including (i) signature of the 2nd ERPA amendment, (ii) confirmation of DRC's ability to transfer title to the verified ERs, (iii) World Bank clearance on the three annexes[4] of the ER Monitoring Report, (iv) updating the sections of the Benefit Sharing Plan regarding fund flow arrangement, and (v) submitting the nominated signatories for the CATS registry, ER Transfer form, and Client Connection. Results recorded in the first ER Monitoring Report are significant: 16.35 million Emission Reductions (ERs) achieved. However, after having discounted for the private sector project's share, uncertainty, risk, and pooled buffer ERs, 5.1 million ERs will be left to be issued as net FCPF credits. As per the ERPA terms, 3.5 million ERs (70 percent of the 5.1 million) would be paid by the Bank generating a payment of about 17.5 million USD for the Program. Another 1.5 million ERs (30 percent of the 5.1 million) would be left for DRC to sell on the voluntary carbon market. With this second restructuring, DRC would also have the ability to offer its 30 percent share to the FCPF as Contract ERs via a Put Option, thereby generating additional financing for the program.

6. A first Restructuring was processed on May 19, 2023, to reflect new Bank and FCPF TF requirements and was coupled with ERPA Tranche A and B Amendments, signed by the client in May 2023. The following changes were made to the Program: i) Adjustment of the Program's Reporting Periods and minimum ER amounts to be sold during each of the periods; ii) Clarification of funds flow arrangements, as defined in the Benefit Sharing Plan (BSP); iii) Inclusion of the Disbursement and Financial Information Letter (DFIL) to bring the operation in compliance with new ERPA requirements; iv) Adjustment of baselines and targets in the Results Framework, to align with the revised Program starting date and revised Reporting Periods; v) Adjustment of the expected disbursement estimates, to align with revised monitoring periods.

7. This second Restructuring responds to a request by the Government of DRC (letter dated March 8, 2024).

RATIONAL FOR RESTRUCTURING

8. The main purpose of the proposed restructuring is to reflect new Bank and FCPF TF requirements and to be aligned with the ERPA Amendments. Specifically, the following changes to the Program are proposed:

[4] Annex 1 (Safeguards), Annex 2 (BSP), Annex 3 (Priority Non-Carbon benefits).

A. **Revision of Funds Flow Arrangement**: Transfer of ERPA payments to DRC through a special account opened at a commercial bank, thus replacing the use of the UNDP Multi-Partner Trust Fund Office (MPTFO) with this revised fund flow arrangement for the receipt and management of ERPA payments.
B. **Removal of Sweep Contract ER Cap**: Removal of the clause on capped excess contractual ER amounts currently included for the first and second Reporting Periods under the Tranche A and Tranche B ERPAs.
C. **Inclusion of a Put Option provision**: Inclusion of a provision to the 30 percent Sellers Split applicable to both the Tranche A and Tranche B ERPAs, allowing DRC to sell all or part of that 30 percent to the Trustee as contract ERs.
D. **Revision of Benefit Sharing Plan (BSP):** Update the BSP sections on payment terms, i.e., replace in the appropriate section of the BSP the Multi-Partner Trust Fund Office (MPTFO) with a commercial bank. All other provisions relating to the flow and distribution of funds remain unchanged.

9. The proposed restructuring does not require any changes to the PDO or to the Safeguards policies triggered. No changes to the Economic and Financial Analysis, Technical Analysis, Social Analysis or Environmental Analysis are proposed.

10. A Financial Management (FM) assessment was carried out after the ERPA was signed to evaluate the adequacy of the FM arrangements for the implementation of the final Benefit Sharing Plan (BSP), and an additional FM assessment was carried out in July 2023 to identify best options for funds flow arrangements. Hence the updated FM assessment is part of this project paper, and the Executive Summary can be found in the section below.

11. The GFRs for this project are in place: GFR 37054 for Tranche A, and GFR 37057 for Tranche B. In addition, two disbursement letters are available for the two ERPAs.

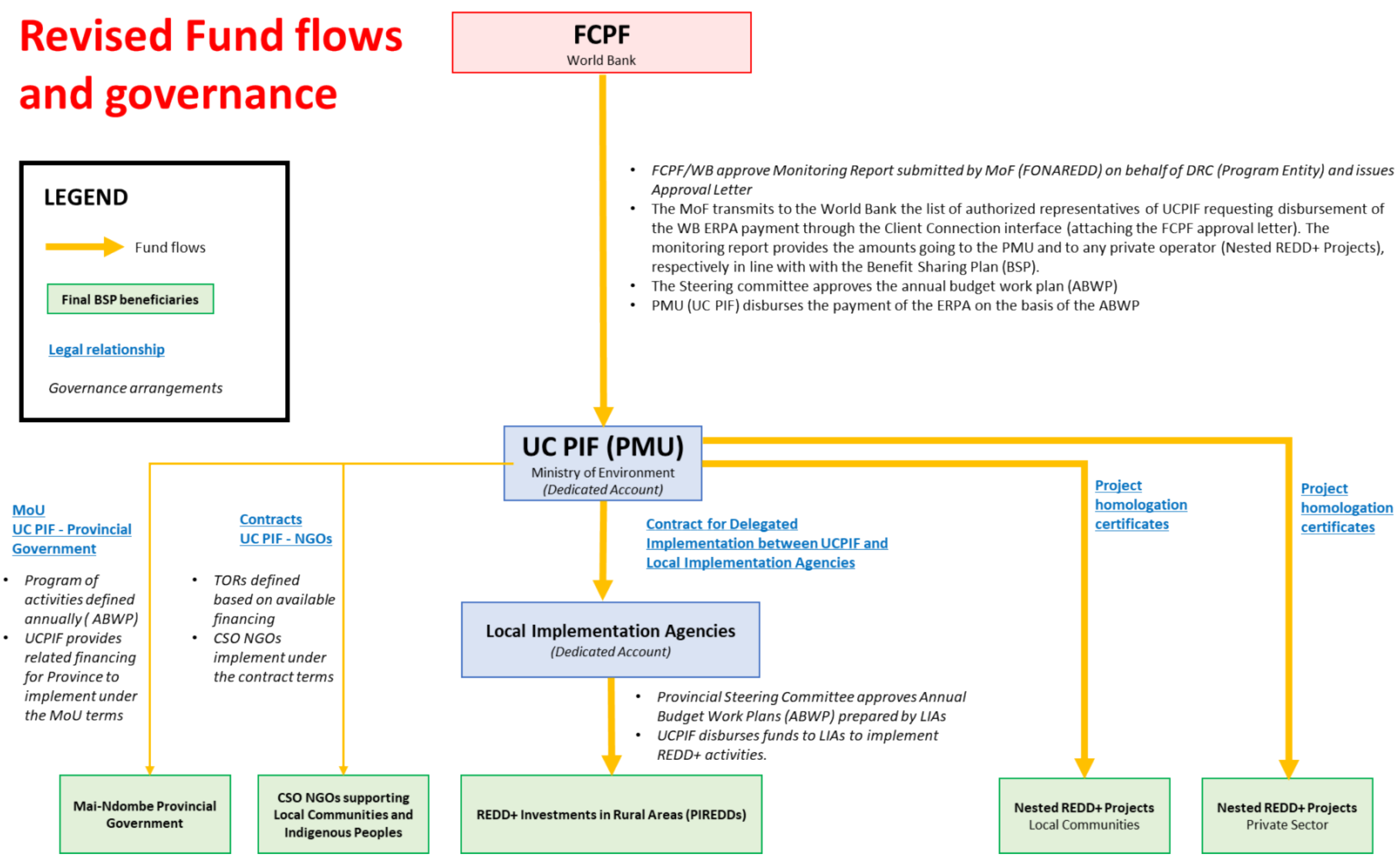
II. DESCRIPTION OF PROPOSED CHANGES

A. FUNDS FLOW ARRANGEMENT

12. Following the finalization of the BSP, and as reflected in the ERPA Amendments for Tranche A and B, the details of funds flow arrangements were clarified, as shown in Figure 1. Specifically, ERPA payments were envisaged to be disbursed from the Bank to the client through FONAREDD, the National REDD+ Fund, an entity under the Ministry of Finance. In order to manage fiduciary risks, FONAREDD bank account was originally planned to be held in the UN's Multi-Partner Trust Fund Office (MPTF-O). However, it emerged that this arrangement would not comply with the World Bank policy, and as such a new FM assessment was conducted in July 2023 to analyze other options for the ERPA payment structure. The assessment identified the use of a commercial bank in DRC as an acceptable approach, as this option is being used also for other ERPAs. When the final verification report will be issued, DRC will also have to confirm that project activities to be financed by ERPA payments have been approved by the Steering Committee of the National REDD+ Fund, as per the process laid out in the BSP. With such confirmation and the verification report, and specific fiduciary risk mitigation measures in place, the World Bank will then proceed with transferring the ERPA payment to the commercial bank. DRC will also need to submit a revised BSP which will update the sections on the

payment arrangement, i.e., replacing the use of MPTFO with a commercial bank. All other arrangements on the fund flow and distribution remain unchanged. The ERPA is amended a second time to incorporate this new approach.

Figure 1: Revised ERPA BSP Funds Flow Arrangements



13. It should be noted that the described funds flow structure reflects the current organization of World Bank financed projects in the environment and natural resources sector and implemented by DRC via the Ministry of Environment and Sustainable Development (MEDD) and its project coordination unit (CU FIP). Fiduciary risk mitigation measures are in place (notably the continuous assessment of the CU FIP by the World Bank) and the specific needs of the ERPA will be the subject of detailed procedures in the ERP Procedures Manual.

B. REMOVAL OF SWEEP CAP CLAUSE

14. According to original ERPA arrangements, an agreed maximum amount of ERs (Sweep Contract ERs) and corresponding payments can be made during Reporting Periods 1 and 2. Specifically, the ER amount capped in aggregate for Tranche A and Tranche B of the Fund is 2,500,000 for Reporting Period 1, and 4,500,000 for Reporting Period 2. Any amounts of ERs exceeding the respective caps for Reporting Periods 1 and 2, are to be treated as ‘additional ERs’ and subject to a Call Option under the ERPA.

15. Through the proposed Restructuring, the clause on capped contractual ERs will be removed, which will enable DRC to maximize payments for its performance, starting from the first Reporting Period.

C. PUT OPTION PROVISION

16. According to ERPA provisions, only 70% of verified Contract ERs that are generated and verified under the ER Program in each Reporting Period[5] can be transferred to FCPF, while the remaining 30% remain with the client to be used for other purposes, including being sold to other buyers.

17. The current restructuring proposes to include a "Put Option" provision, as already present in other ERPAs[6], allowing DRC to sell all or part of its Percentage Split Amount (namely 30 percent generated and verified ERs, minus set-aside Buffer ERs), currently retained by the Program Entity, to the Carbon Fund as Contract ERs. Through the inclusion of the "Put Option" provision, all or part of the verified ERs generated from the ER Program under the reporting periods can be bought by the FCPF as Contract ERs – in the event that DRC does not wish to retain some or all of its 30 percent share.

D. BENEFIT SHARING PLAN (BSP) REVISION

18. Following the Funds Flow Arrangements revision that require the replacement of the Multi-Partner Trust Fund Office (MPTFO) with a commercial bank, the Benefit Sharing Plan will need to be revised by updating the sections on Funds Flow Arrangement, to ensure full alignment.

III. PROPOSED CHANGES

Operation Information	Proposed Changes	Operation Information	Proposed Changes
Disbursements Estimates	Yes	Institutional Arrangement	Yes
Disbursements Arrangements	Yes	Loan Closing Date Extension	No
Development Objective	No	Loan Cancellations	No
Safeguard Policies Triggered	No	Reallocations	No
ISDS	No	Financial Management	No
MFD/PCE	No	Procurement	No
Results	No	Implementation Schedule	No
Risks	No		
Legal Covenants	No		
Conditions	No		
Implementation Modalities	No		
DDO	No		

[5] A certain amount of ERs are to be set aside as Buffer ERs in the ER Program Buffer.
[6] One example is Madagascar.

Clients	No		
Appraisal Summary	No		
Components	No		

IV. DETAILED CHANGE(S)

COSTS & FINANCING

Private Capital Facilitation

Is this an MFD-Enabling Project (MFD-EP)?

Is this project Private Capital Enabling (PCE)?

DISBURSEMENTS

Operation Dates & Projection Details

Reasons to change the full Disbursement date and/or the projection

Implementation Start Date	Operation Closing Date
13-Sep-2018	31-Dec-2025

Projected Date for Full Disbursement

30-Sep-2025

Expected Disbursements (in US $) (Absolute)

Year	Original Estimation at Preparation (Approval Package – 13 Sep 2018)	Revised Estimation	Actual
FY2019	1,977,690.00	0.00	0.00
FY2020	5,376,800.00	0.00	0.00
FY2021	7,954,705.00	0.00	0.00
FY2022	11,093,720.00	0.00	0.00
FY2023	12,687,620.00	0.00	0.00
FY2024	14,080,605.00	0.00	0.00

FY2025	1,828,860.00	35,000,000.00	0.00
FY2026	0.00	20,000,000.00	0.00

ANNEX I. Financial Management Assessment

The Project Development Objective is to make payments to the Recipient for measured, reported, and verified Emission Reductions related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (ER payments) in the Mai-Ndombe province, and to distribute ER payments in accordance with the agreed Benefit Sharing Plan. The ERPA project consists of two parts: the first one is related to the Payment for ERs generated under such operations. The second part is about the redistribution of funds received from the ERPA mechanism, in accordance with the Benefit Sharing Plan (BPS).

1. **A Financial Management (FM) Assessment was carried out** to evaluate the adequacy of the FM arrangements for the implementation of the proposed ERC operation. As the World Bank FM policies for Investment Project Financing do not apply to ERC payment, only the funds flow requirements of the operation are presented. For the second part of the operation dedicated to the ERC redistribution, The Financial Management Assessment reviewed the specific arrangements to ensure proper control, recording, and reporting of project expenditures.

2. **The scope of the assessment included** (i) an evaluation of existing financial management systems to be used for project monitoring, accounting and reporting; (ii) review of the staffing requirements of the project; (iii) review of the flow of funds arrangements currently in place; (iv) review of the internal control mechanisms in place; (v) review of the systems reports and discussions with regards to the Bank's reporting requirements; and (vi) review of the internal and external audit arrangements.

3. **Overall FM** risk rating for this Project is assessed as Substantial. The key elements resulting for this rating are lack of previous experience in ERPA operation as it is the first in the country, important risk of double dipping with ongoing projects, the noncompliance with the Benefit Sharing Plan during the ERPA activities implementation. Some mitigation measures are provided to ensure the proposed FM arrangements meet the World Bank's fiduciary requirements for the program.

4. **Institutional arrangements:** Following the implementation arrangements for the proposed ERC operation, Ministry of Finances will be the Program Entity as it will ordering the transfer of the ERPA payments, with the support of Fonds National REDD (FONAREDD) which chairs the Steering Committee (COPIL). Under the Ministry of Finances, the transfer of ERPA payments will be managed by the CU FIP which will be in charge of the overall coordination of the ERPA's activities implementation. This unit was created by Ministerial Order No. 008/CAB/MIN/ECN DD/01/00/RBM/2015 of November 19, 2015 and has a wide experience in managing projects of the environment sector with various donors. At the level of world Bank financing, the UC PIF has monitored till May 31, 2024 the projects P128887 - DRC Improved Forested Landscape Management Project along with its AF from GEF and CAFI, the ongoing P178642- Forest and Savanna Restoration Investment Program, and the technical assistance of the ERPA implementation P170835. CU FIP already possesses (a) a Project Implementation Manual, (b) a multi-project and multi-site accounting software (c) an internal audit function, and (d) a financial management staff that has acceptable skills, experiences, and knowledge relevant to monitor the new project.

Details of the FM arrangements

5. **Budgeting:** The Project Management Unit's (CU-FIP) will coordinate the preparation of annual work program of activities under the ERPA, which should be approved by the FONAREDD COPIL to become operational. The annual work plan will include payment linked to:
   - Local Communities and Indigenous People (LCIPs) based on contracts signed based on terms of reference (defining activities, implementation methods, and required technical expertise.
   - Payments to rural area based on delegated implementation contract with the Local Implementation Agencies that carry out activities and investments in rural areas.
   - Payments to community-driven sub projects, as stipulated in the Monitoring Report.

   The CU FIP Procedures Manual will be strengthened to include the specificity of the ERPA budget execution in accordance with the BSP.

6. **Internal control:** CU FIP already has a financial manual used for the ongoing projects implementation. This manual will need to be updated, to (i) consider specific aspects linked to ERPA activities monitoring in accordance with the Benefit Sharing Plan (BSP) adopted in July 2022 and (ii) strengthen the monitoring of common expenditures among all the projects under its implementation. The BSP describes the institutional arrangements, the process of activities planning and the decision rules for sharing of benefits.

7. **Internal audit:** CU FIP already has an internal auditor that will oversee the project's internal audit. For the ERPA activities, the internal auditor will submit its reports for the validation of the FONAREDD executive secretary in other to make them applicable. The Internal auditor will prepare an annual risk-based work plan that will be validated in the level of FONAREDD. Also, he will produce quarterly report that will be validated by the FONAREDD and will be shared with the World Bank no later than 60 days after their approval.

8. **Accounting:** The project management unit (CU FIP) already has Accounting Policies and Procedures documented in the Project implementation manual (PIM). However, the PIM will be strengthened to consider the specificities of activities under the BSP. The OHADA accounting law for not- profit entities (SYCEBNL) will apply to the project transactions. The PMU already uses the software TOMPRO and will create a new window for additional projects.

   The CU FIP is staffed with a Financial Management team with acceptable skills and experiences and knowledge in managing donors financed- projects.

FM Action plan

Action	Responsible	Deadline
Revise the project implementation manual	CU FIP	3 months after the effectiveness date
Recruit the external auditor	CU FIP	6 months after the effectiveness

9. **Funds flow and disbursement arrangement:** The Bank's Financial and Accounting Services Department (WFACS) has prepared a Disbursement and Information Letter (DFIL) for the ERPAs. The eligible expenditure is the payment, or 'ER payment', made by the Bank to the recipient country based on verified ERs as regulated in the ERPA.

10. The disbursement will be conducted in accordance with the Benefit Sharing Plan (BPS).

11. **The first level of disbursement** will be done from the World Bank account into a dedicated account in a commercial bank managed by CU FIP, denominated in US dollars and created to receive and to disburse ERPA payments. The first level of disbursement is effective when conditions below are met:
    - The Monitoring Report has determined the amount of ERPA payments and their distribution among the various beneficiaries.
    - An independent verification agency has reviewed and provided an opinion on the Monitoring Report.
    - The Forest Carbon Partnership Facility (FCPF) has approved the independent verification report and issued a letter of approval that has to be joined to the request to the World Bank to release funds into a dedicated account with a commercial bank.
12. **The second level of disbursement**: under the instruction of the ER Program Management Unit (CU FIP), funds will be released from the established dedicated designated account held by commercial bank to eligible beneficiaries, in accordance with the Benefit Sharing Plan (BSP). The disbursement will be done in accordance with the annual work plan approved by the FONAREDD COPIL.
    - Subprojects submitted by the private sector: Once approved, payments will be made directly to private sub project owners from the dedicated account. These payments will be instructed by the CU FIP to the commercial bank.
    - MAI NDOMBE Provincial Government: The Provincial Government received funds based on the arrangement under the MOU with the CU FIP defining activities eligible and an annual work plan (annual work plan and budget, AWPB).
    - Local Communities and Indigenous People: Payments for Local Communities and Indigenous People (LCIPs) are regulated by contracts with national NGOs.
    - Rural areas: Payments to rural areas are done through the dedicated account of the Local Implementation Agencies that receive the delegation of activities implementation. This is done through the AWPB prepared by the Local implementing agency and approved by the provincial steering committee.
    - Local community: CU FIP distributes payments to community-driven subprojects, as stipulated in the Monitoring Report.

    Advances on the ERPA payment are authorized in the designated account. Related funds will follow WB's disbursement policies and procedures, described in the Grant Agreement (GA) and the Disbursement and Financial Information Letter (DFIL). The ceiling of advances allowed is USD 7.5 million and is divided in tranches of a minimum of USD 1,060,000 based on the reporting periods. The table below shows the allocation of advances tranches:

Tranche A	5.36224198149648%
Tranche B	94.6377580185035%

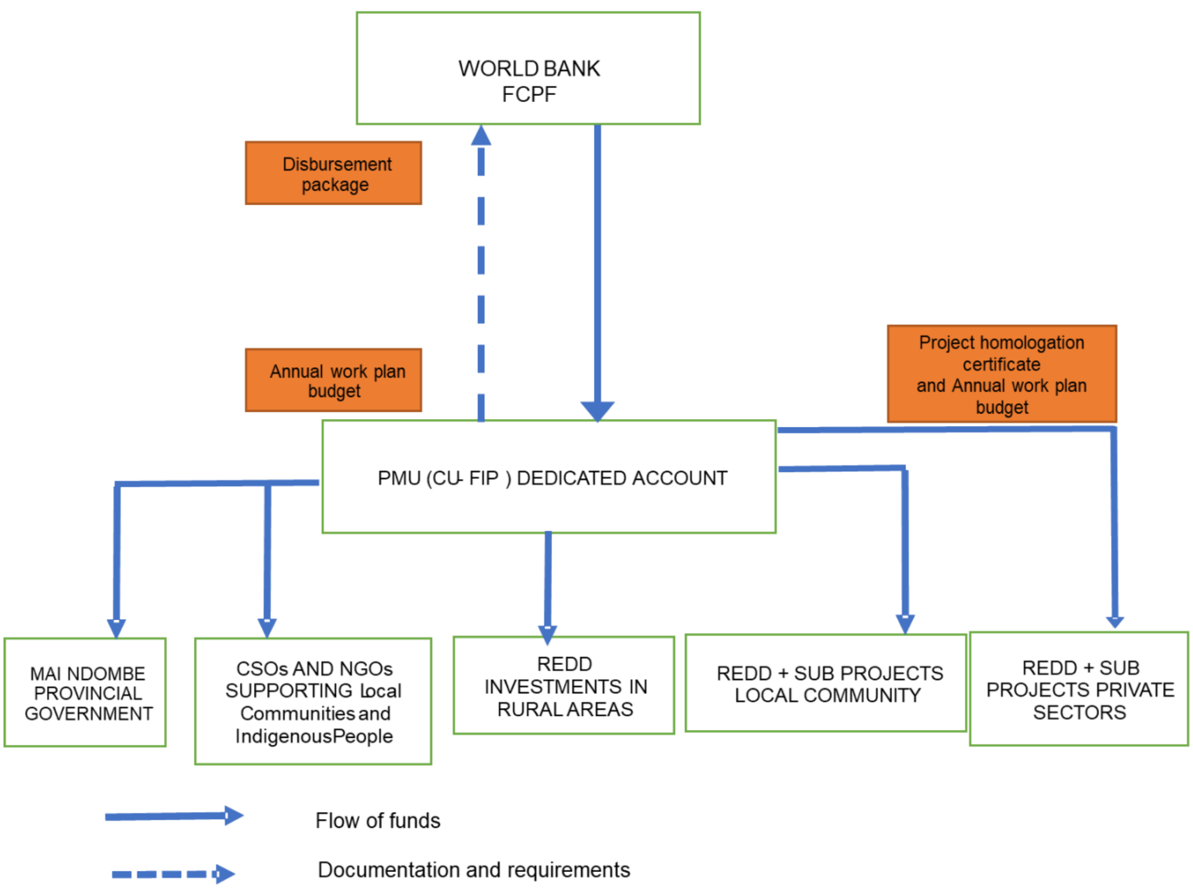
	Amount in $	Tranche A	Tranche B
Upfront advance	$ 1,060,000.00	$ -	$ 1,060,000.00
Interim advance 1	$ 1,060,000.00	$ 56,840.00	$ 1,003,160.00
Interim advance 2	$ 1,060,000.00	$ 56,840.00	$ 1,003,160.00
Interim advance 3	$ 1,060,000.00	$ 56,840.00	$ 1,003,160.00
Interim advance 4	$ 1,060,000.00	$ 56,840.00	$ 1,003,160.00
Cap of upfront and regular interim advance	**$ 5,300,000.00**		
additional interim advance	$ 2,200,000.00	$ 117,970.00	$ 2,082,030.00
Cap of upfront, regular & additional interim advance	**$ 7,500,000.00**	$ 345,330.00	$ 7,154,670.00

Table 1. Allocation of designated account advances per tranche

Following current practices, advances made to the Designated Account will be documented through the Statements of Expenditures and supporting documents defined in the DFIL.

The disbursement and financial information letter (DFIL) will detail the disbursement methods and terms applicable to the ERPA Mechanism.

Figure 1. Financial Funds flow



13. **Reporting:** The PMU will prepare quarterly Interim Financial Report (IFR) of the projects under the BSP. These reports will be formally reviewed and approved by the FONAREDD before submission to the Bank. The IFR format will include detail concerning source of funds, activities implemented, the allocation of ERPA envelop among various beneficiaries, etc. The IFR will also include a section on the allocation of funds received in the level of World Bank, with supporting documents on the cash balance. The IFR will be submitted to the World Bank 45 days after the close of each quarter.

14. **Auditing:** CU FIP activities under ERPA will be subject to external audit from a private audit firm acceptable for the Bank. The audit will cover the consolidated financial statements developed by CU FIP on the use of the ER fund by recipients. Each audit will cover a period of one fiscal year of the recipient. The audits will be conducted based on a Terms of Reference (TOR) and a short list of the audit firms agreed with the Bank. The audit report will be transmitted to the Bank no later than 6 months after the end of the fiscal year. The audit will go beyond merely providing an opinion on the financial statements to also include compliance with the BSP and grant covenants and related regulations.

15. **Supervision mission:** Based on the risk level, FM supervision mission will be conducted at least once a year to verify that the Recipient has implemented requirements of the BSP, as agreed per the legal agreement. In the case ERPA activities are not being implemented in a manner acceptable to the Bank, the Bank can apply as a remedy measure the withhold of all or part of the next ER payment.

    The supervision will be complemented by reporting review.

Risk table and mitigation measures

Risk	Risk rating	Risk Mitigating Measures Incorporated into Project Design	Residual Risk
INHERENT RISK	**H**		**S**
Country level Poor governance and slow space of implementation of PFM reforms that might hamper the overall PFM environment. Most of the Pillar on PFM are rated low in accordance with the DRC PEFA report.	H	Governance is a key area of the CPF approved in the country in January 2022. Various PFM reforms are being supported by World Bank financed projects or projects components: • DRC FOUNDATIONAL ECONOMIC GOVERNANCE REFORMS DPO SERIES (P179141) • Enhance collection of Revenue and Expenditure Management Project (P171762 - ENCORE), and Eastern DRC stabilization project (P175834) for project under preparation • Commitments at the Government top level to address Corruption. The Internal audit (IGF) is very active in fighting fraud and corruption.	H
Entity level • The calculation of the ERPA benefit is over estimated • Allocate the ERPA funds to activities that are not compliant to the BPS	S	• An independent verification agency will carry out an audit of the monitoring report on ERPA benefit before disbursement. • IFR will be submitted to the World Bank to present the financial situation of the ERPA. An external audit will be conducted one a year	

Risk	Risk rating	Risk Mitigating Measures Incorporated into Project Design	Residual Risk
• Lack of capacity on the ERPA operation management		• The PIM will provide necessary information on the role and responsibilities of different actors. Also, it will include orientation on the BSP implementation.	S
Project level • The PIU managed many projects. There is a risk that funds from one project are used to finance activities of another project, • Risk that an activity is financed by different projects • Risk of confusion between activities of projects implemented, and Double dipping of expenditures	H	The project implementation manual will be strengthened to facilitate the coordination of projects under the PIU implementation.	S
CONTROL RISK	**S**		**S**
Budgeting • Late preparation of annual work plan resulting to late approval of annual budget, • Activities in the annual budget are not coherent with the BSP requirements • Risk of double dipping	S	• The existing PIM includes good description of budget preparation, execution, control and monitoring processes and also specific requirements of the BSP. • Preparation of a separate budget for common expenditures with other projects Preparation of a consolidated budget that include List of all activities managed by the project.	S
Accounting • Double dipping • Delay on accounting records • Confusion on records from one project to another	S	• The PIM will be strengthened to describe additional controls to put in place • • Software configuration to facilitate the recording of different financing managed by the PIU The PIU with the experience acquired under other projects will put in place suitable organization.	S
Internal Controls and Internal Audit • Internal control system failure to identify material risks; or such risks are not properly addressed.	S	Internal audit risk assessment, audit program, and reports will be timely submitted to the Bank for review.	S
Funds Flow • Noncompliance of documentation provided for the disbursement of the ERPA benefit	H	• An independent verification agency will give an opinion on the monitoring report used for the disbursement • The procedures manual should clearly present the interdiction of prefinancing • The separate designated account for project	S

Risk	Risk rating	Risk Mitigating Measures Incorporated into Project Design	Residual Risk
Prefinancing transactions with other projects that may lead to ineligible expenditures		facilitates the identification of prefinancing	
Financial Reporting Report provided with confusion of financial data with other projects	S	The project will have separate accounting window to make a distinction of projects financial information and facilitate the reporting.	S
External Auditing • Risk that the auditor is not qualified to carry out the audit. • Risk that audit norms are not respected	S	Short list and the Terms of references for the audit will be submitted to the Bank for review	S
Overall FM risk	**S**		**S**