Forest Carbon Partnership Facility (FCPF)

Carbon Fund extension

January 2024

This FCPF Facility Management Team (FMT) note assesses the implications of closing the FCPF Carbon Fund (Carbon Fund) as scheduled on December 31, 2025 and the implications of an extension, and presents the FMT's recommendation to extend the Carbon Fund for three years to December 31, 2028.

1 Background

1.1 The Current Term

Under the FCPF Charter, dated April 8, 2020, the Carbon Fund is scheduled to terminate on December 31, 2025 (Section 22.1 (b)) (Term or Closing Date). The Term can be extended by unanimous consent of the Carbon Fund Participants (CFPs) (Section 23.2 (b)). This is provided that the Trustee will continue to serve as trustee of the fund and that the Board of Directors of the World Bank expressly agrees to such an extension.

In 2015, the Twelfth Meeting of the Carbon Fund (CF12) approved the extension of the Carbon Fund from December 31, 2020 to December 31, 2025 through Resolution CFM/12/2015/1.

1.2 Status of the Carbon Fund

The Carbon Fund has active Emission Reductions Payment Agreements (ERPAs) with 15 countries[1] with a total value of US$720 million, which were signed between September 2018 and September 2021, being mostly signed in mid-2020. All 15 ERPAs (each consisting out of a Tranche A ERPA and a Tranche B ERPA) met effectiveness conditions between February 2020 and March 2023, with a substantial delay on the expected time for meeting conditions of effectiveness in great part due to the disruptions caused by the COVID-19 pandemic.

All countries have issued their first ER monitoring reports (ER-MRs), with the first payment having taken place in August 2021. To date, results-based payments for verified ERs have been made to Costa Rica, Ghana, Madagascar, Mozambique and Viet Nam, representing a total close to **US$113 million, or 15% of the total contract value of all ERPAs**. Payments for Lao PDR and Mozambique (second reporting period) are under process, and advance payments for monitored and reported ERs have been made to Indonesia, as well as upfront advance payments to Côte d'Ivoire, Lao PDR, and Republic of Congo.

All 15 ER Programs have submitted at least one ER-MR, reporting so far a total of 94.7 million ERs, which have been paid for or are in different stages of verification. Once all currently reported volumes of ERs are verified, the expectation is that the Carbon Fund will be able to reach total results-based payments of **US$350 million for around 70 million ERs, amounting to 50% of the total contract value of all ERPAs**. The

[1] Chile, Congo (Republic of), Congo (Democratic Republic of), Costa Rica, Côte d'Ivoire, Dominican Republic, Fiji, Ghana, Guatemala, Indonesia, Lao People's Democratic Republic, Madagascar, Mozambique, Nepal, Viet Nam.

remaining volume of around 24 million ERs would be of excess ERs that could potentially be available to carbon markets.

1.3 Projected Status by December 31, 2025

Based on experiences with the first ER reporting periods, associated ER-MRs, and validation/verification processes, it is expected that by December 31, 2025 a total of 87 million **Contract ERs will be verified, transferred and paid for**, representing **US$429 million, amounting to 60% of the total contract value of all ERPAs**.

In terms of **benefit sharing**, it is projected that **US$184 million, 25% of the total contract value**, or 43% of disbursed payments, to be shared through the Benefit-Sharing Plans (BSPs), would be implemented.

In terms of **Excess ERs**, i.e., ERs generated in excess of the ERs contracted under the 15 FCPF ERPAs (i.e Contract ERs and Additional ERs for which a Call Option has been exercised), the expectation is that a total of **87 million Excess ERs** could be available by December 31, 2025. If materialized in carbon markets this could represent a significant amount of additional financing mobilized by ER Programs, as shown in *Annex C*.

1.4 Projected Status beyond 2025

Current projections for a longer time horizon, presented in detail in *Annex B*, show that the earliest moment at which both the maximum contracted ER volume is delivered and the full benefit-sharing implementation of the payments made for contracted ERs can be monitored, is with a Carbon Fund closing date of **December 31, 2028**[2].

In terms of **Excess ERs**, a closing date of the Carbon Fund of December 31, 2028 could bring the total volume of Excess ERs to about **126 million ERs**.

2 Options for CFPs consideration

Considering the current status of the ER Program deliveries which were impacted by COVID-19 pandemic, the projection of ER volumes to be achieved, verified and paid for by 2025 and subsequent years, and the potential finance countries could mobilize from the sale of Excess ERs, the FMT is of the opinion that it is reasonable for CFPs to consider an extension of the FCPF Carbon Fund. <u>The FMT ran different scenarios of ER delivery depending on the closing date (see table below), and concluded that:</u>

- A **1 year Term extension** will not be sufficient to significantly increase the total results-based payments for contracted and additional ERs (from 63 to 73%) although it allows progress on BSP implementation (from 25 to 60%). The amount of generated Excess ERs could be increased by 3.5 million ERs (from 87.5 to 91 million Excess ERs).
- A **2 year Term extension** will significantly increase the total results-based payments for contracted and additional ERs (from 63 to 97%) while increasing significantly BSP

[2] The contract ER payment shows less than $720 million – this is due to the projections that several countries are not expected to meet their full contract volume, but the expectation is that this number will be compensated through call options.

implementation (from 25 to 66%). The amount of generated Excess ERs could also be increased substantially by 32.5 million Excess ERs (from 87.5 to 120 million Excess ERs).

- A **3 year Term extension** will maximize results-based payments for contracted and additional ERs (from 60 to 100%), but will enable countries to reach maximum BSP implementation (from 25 to 87%). The amount of generated Excess ERs could be maximized at 126 million ERs, i.e. an increase by 38.5 million (from 87.5 to 126 million Excess ERs).

Scenario	**Payment made contract +additional ERs ($m/% of total)**	**BSP implemented and monitored ($m/% of program amount)**	**Excess ERs issued (m)**	**Donor funding undisbursed ($m)**
Dec 2024	350 (49%)	176 (24%)	46	370
Dec 2025	454.6 (63%)	184 (25%)	87.5	291
+ 1 y	526.9 (73%)	429 (60%)	91.6	244
+ 2 y	701.4 (97%)	476 (66%)	120	94
+ 3 y	**721.3 (100%)**	**626 (87%)**	**126**	94

In view of this, the FMT is proposing two options for consideration: Option 1 – No extension; Option 2 – Extension until December 31, 2028.

2.1 Option 1: Status Quo - Carbon Fund closes on December 31, 2025

Implications

The implications of closing the fund on December 31, 2025 are several as explained in the previous sections. Total delivery would reach only 60% of contracted ERs, with around a 25% disbursement through the BSPs by the end of 2025.

This would mean that close to half of the contracted ER volume, would not be achieved, verified, transferred or paid for, and the remainder of the disbursement of funds through the BSPs would not be implemented. Moreover, **38.5 million fewer Excess ERs** would be generated over what could be achieved.

Annex D includes a forecast of available investments and costs. By December 2025 it is expected that the Carbon Fund would have around **US$368 million not disbursed (and subsequently shared through the BSP)**. In this case, two options would be available:

a) CFPs could decide to use these remaining funds for exercising additional Call Options under ERPAs of over-performing ER programs, but it is worth noting that in this case payments would go to very few countries that would have already delivered the Contract ER volumes (e.g. Indonesia, Vietnam); and

b) Remaining funds would be returned to respective CFPs on a *pro-rata* basis after which they could decide to withdraw these funds from the World Bank or reallocate them to other World Bank-administered trust funds, such as SCALE. But this is a decision taken by each CFP separately on a case-by-case basis.

Pros and Cons

The following table provides an overview of Pros and Cons.

Pros	Cons
• No Term extension resolution needed • No amendments to the FCPF Charter or ERPAs needed • Provides a clear end, and incentive for host countries to generate as many ERs as possible (could also be a 'con') • Remaining funds could be used by CFPs for other purposes, including additional programming under SCALE.	• Potential to generate carbon credits and provide access to result-based climate finance and, especially carbon finance, is limited significantly. • Sustainability of ER Programs in risk due to limited finance and lack of time to move to reach proof of concept and move to alternative options, including carbon markets. • Reputation of the FCPF Carbon Fund and perceived quality of FCPF carbon credits may be at risk, especially since benefit sharing will not be fully monitored. • Opportunities to generate knowledge and extract lessons learned, namely on benefit sharing arrangements, would be reduced significantly. • The REDD+ process in host countries would be impacted and reputational risks for the fund may materialize as beneficiaries would see that the promised climate finance would not arrive as promised and expected. • No further World Bank supervision of ER Programs, limiting safeguards implementation and World Bank support to host countries.

2.2 Option 2: Carbon Fund is extended to December 31, 2028

Implications

The implications of closing the fund on December 31, 2028 are significant as it would enable the delivery of **Contract ERs to reach 87%** and most importantly it would be possible to **monitor the benefit sharing process of 100% of these results-based payments**.

Moreover, the portfolio could be able to generate **more than 38.5 million additional Excess ERs,** making the potential total volume of Excess ERs to achieve 126 million Excess ERs. In the right carbon market conditions this could represent over US$577 million in extra financing for the ER Programs.

This 3-year Term extension period would likely be enough to enable the World Bank to supervise the ER Programs and supervise BSP implementation, and extract knowledge and lessons learned and share them adequately with the global community.

Remaining funds at the end of 2028 could be around **US$90 million which would be returned to CFPs** on a pro-rata basis to be withdrawn by the CFP or reallocated to a different World Bank-administered trust fund, unless these remaining funds are fully utilized through the exercise of Call Options.

The additional cost of continuing the management of the Carbon Fund by the World Bank (including supervision, registry costs, knowledge management, etc.) is estimated at approximately US$8-10 million on average per year. At the same time, it is likely, though not guaranteed, that the Carbon Fund would generate investment income during this time that could (partially) offset these additional costs.

Pros and Cons

The following table provides an overview of Pros and Cons.

Pros	Cons
• All host countries are expected to maximize delivery of their contracted ER volumes. • Excess ERs generation is maximized with additional 38.5 million ERs, which could reach a carbon market value of US$577 million with the right market conditions. • ER Programs and FCPF have time to enable an alternative that ensures the sustainability of ER Programs (e.g. transitioning to other standards, FCPF 2.0,…). • Expectations of beneficiaries under BSPs could be met (or even exceeded through Call Options and Excess ER monetization) and associated reputational risks reduced. • BSP implementation can be fully monitored. • Host countries could fully benefit from the ER Program, including on Excess ERs (e.g., auctions). • Additional time allows for knowledge generation and lessons learned to be extracted, informing future initiatives. • ER Programs would continue to be under World Bank supervision, which would enable better implementation of safeguards and additional support to countries.	• Term extension resolution needed. • Amendments to the FCPF Charter and ERPAs needed on a case-by-case basis. • Approval by the World Bank Board of Executive Directors must be secured. • Additional costs of administering and supporting the fund (potentially offset by additionally generated investment income). • Extending Carbon Fund could risk sending negative signals regarding effectiveness or time needed. Countries could ‘drag feet’. • Potential perception of an overlap between the FCPF Carbon Fund and SCALE (pillar 1).

3 Recommendation

In view of the above, the FMT recommends CFPs to approve an extension of the closing date of the FCPF Carbon Fund until December 31, 2028.

The extension would be done under the conditions that: i) FMT implements mitigation measures to enable host countries to meet the necessary timelines and deliver; ii) World Bank continues exploring, and implements, if applicable, a suitable solution to enable an efficient and cost-effective alignment with SCALE and (iii) the World Bank Board approves the extension.

The extension would not have any additional cost for Carbon Fund Participants, and would be financed with the investment income and if not through uncommitted funds.

3.1 Mitigation measures to enable countries to deliver

For the preparation of this FMT Note, the FMT has requested all countries (program entities) to provide realistic plans for the submission of all pending ER-MRs. These dates have been confirmed by the FMT's MRV experts, have been used for the projections presented in this FMT Note, but these dates will also be used as deadlines that will be strictly enforced by the FMT.

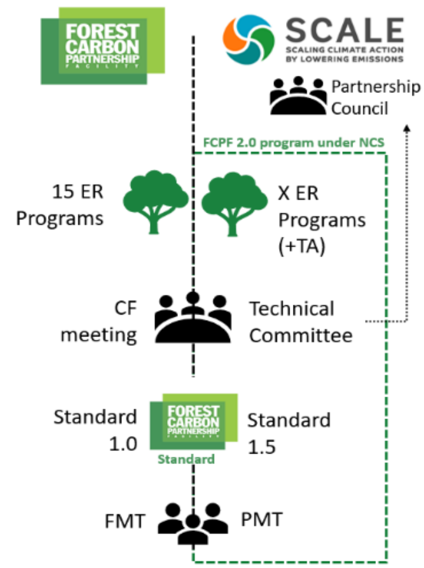
Upon the approval of the Term extension by the CFPs and pending the World Bank Board of Executive Directors' approval, **the FMT will submit a letter to all countries (program entities) informing them of the new deadlines to submit their ER-MRs, and of the consequences of not doing so**. These deadlines will also be important to enable the FMT to manage the pool of Validation and Verification Bodies.

3.2 Alignment with SCALE

It is important to note that the FCPF Carbon Fund and SCALE would coexist for a limited period of time until 2028. The Carbon Fund will not receive additional contributions and will not sign new ERPAs, and the new programming will be done under the SCALE Trust Fund. As requested by CFPs, the FMT has assessed multiple options, and finds that only one of them is feasible. All other options have been found to being excessively disruptive for countries, CFPs and the Trustee as they require significant changes to the existing legal documents (incl. Participation Agreements and ERPAs) and FCPF governance structure (incl. FCPF Charter). We provide a description of all assessed options below.

Option 1 – "Informal association" (recommended)

FCPF Carbon Fund and SCALE will co-exist as separate trust funds with different governance structures, but in practice they will be working as an "informal" association with very close alignment and coordination. They will be different trust funds but will efficiently and cost-effectively coordinate and share information between their respective governance and stakeholder engagement bodies.



- SCALE would have a specific forest program under the Natural Climate Solutions Pillar (Pillar 1) which would be focused on REDD+, and which could be called FCPF 2.0 program.
- Carbon Fund meetings and SCALE's Partnership Technical Committee (PTC) of Pillar 1: These meetings could be organized back-to-back to the extent possible. This would ensure that there is coherence in the existing FCPF Carbon Fund portfolio and new SCALE programming of REDD+ programs.
- FCPF Standard: This will exist under both the FCPF and SCALE forest program, resulting in fungible ER credits. Governance of both 1.0 and 1.5 standards would be done by a separate SCALE Technical Advisory Group (TAG), which would ensure independence over governance of the FCPF Carbon Fund and SCALE.
- The FMT working under FCPF would be the same team in the Partnership Management Team (PMT) working for the SCALE forest program.

Option 2 – Other options (not recommended)

The FMT discussed and assessed with different legal and policy unit teams in the World Bank multiple other options, including the novation of ERPAs from the FCPF Carbon Fund to the SCALE Anchor Trust Fund and the association of the FCPF Carbon Fund under SCALE as an "Associated Trust Fund' (ATF) (with different modalities). Both alternative options require significant changes to the current legal documentation (Participation Agreements and ERPAs) and governance structure (FCPF Charter) under the FCPF and, in case of the novation option, would require the transfer of significant funds from the FCPF Carbon Fund to SCALE and the signing of new SCALE Administration Agreements by all CFPs. All these other options were deemed to be too disruptive to countries and CFPs (as well as the World Bank) and thereby risk confusing countries and shifting their focus away from ER Program implementation and maximizing ER delivery by 2028.

It was therefore concluded that the least disruptive, and therefore recommended, option for countries and CFPs (as well as the World Bank) is the Term extension to 2028 under the "informal association" option. The fact that the FCPF Carbon Fund and SCALE would co-exist as separate trust funds until 2028 was deemed acceptable, as the "informal association" option allows for efficient and cost-effective ways to organize, coordinate, align and cross-inform each trust fund's governance bodies' work, thereby minimizing overlap and duplication of work and costs and leading to two coordinated work streams complementing each other in their work on existing and additional REDD+ programming efforts.

4 Process of extension

To extend the closing date of the Carbon Fund, according to the FCPF Charter Section 23.2(a), the Trustee requires unanimous consent of all CFPs to amend the termination date in Section 22.1 of the FCPF Charter to the agreed date, subject to the subsequent agreement of the World Bank Board of Executive Directors. Any decision will be documented in a formal resolution adopted in person during the Carbon Fund meeting or adopted virtually through a no objection process thereafter, specifying the amendments to the FCPF Charter.

After this (in person or virtual) approval by CFPs the Trustee will then need to seek formal support from the World Bank Board of Executive Directors on the terms of such extension and to allow the World Bank to continue to serve as Trustee of the Carbon Fund (see Charter, Section 23). If the Board of Executive Directors does not agree with any proposed extension of the Carbon Fund, the fund's Term extension will not happen and the corresponding amendment of the FCPF Charter will be deemed null and void.

In case of the Board of Executive Directors' support of the proposed fund's Term extension, the FMT will then notify countries (program entities) that they may request to amend the term of their respective ERPAs to 2028 as well. It is important to note that the extension of the Term of the FCPF Carbon Fund does not mean that the term of the ERPAs under the FCPF Carbon Fund will be automatically extended too. The ERPAs will need to be amended on a case-by-case basis, subject to agreement with the countries (program entities) and subject to CFP non-objection. Moreover, World Bank regional teams, including the Country Directors, will need to agree on the ERPA extensions on a case-by-base basis, too..

Annex B: Detailed annual projections emission reductions as of 15 December 2023 in US$ million.

	Cut-off date 31 December 2025	Cut-off date 31 December 2026	Cut-off date 31 December 2027	Cut-off date 31 December 2028
Contract ERs issued	85,915,945	95,384,455	125,289,992	125,289,992
Payments of contract ERs	$429.6	$476.9	$626.4	$626.4
Monitored benefit sharing	$184.0	$429.6	$476.9	$626.4
Additional ERs issued	5,000,000	10,000,000	15,000,000	19,000,000
Excess ERs issued	87,432,921	91,643,819	120,178,821	126,000,000
Total FCPF ERs issued (tCO2e)	178,348,866	197,028,274	260,468,813	270,289,992

Annex C: Potential value of excess ERs at different price points in US$ million.

	Cut-off date 31 December 2025	Cut-off date 31 December 2026	Cut-off date 31 December 2027	Cut-off date 31 December 2028
Excess ERs issued	87,432,921	91,643,819	120,178,821	126,000,000
Payments of additional/excess ERs minimum ($5USD/tCO2e)*	$437.2	$458.2	$600.9	$630.0
Payments of additional/excess ERs max ($15 USD/tCO2e) †	$1,311.5	$1,374.7	$1,802.7	$1,890.0

* Price of US$5 per carbon credit is price as agreed for the majority of FCPF's call options.

† Price of US$15 per carbon credit is based on Guyana's ART Trees sale price for 2016-2020 vintage (2021-2025 sold at US$20, 2026-2030 at US$25).

Annex D: Detailed financial projections (cumulative*) as of 15 December 2023 in US$ million.

	Cut-off date 31 December 2025	Cut-off date 31 December 2026	Cut-off date 31 December 2027	Cut-off date 31 December 2028	Cut-off date 31 December 2029
Donor contributions	$874.5	$874.5	$874.5	$874.5	$874.5
Projected investment income (highly speculative)	$64.3	$69.3	$74.3	$79.3	$84.3
Subtotal expected inflow	*$938.8*	*$943.8*	*$948.8*	*$953.8*	*$958.8*
Payment of contract ERs	$429.6	$476.9	$626.4	$626.4	$626.4
Payment for Call Options / Additional ERs‡	$25.0	$50.0	$75.0	$95.0	$95.0
FCPF Expenses (ER Program costs (incl RETF Fees) & FMT)	$105.6	$114.1	$122.6	$131.1	$139.6
CORSIA Expenses§	$10.0	$10.0	$10.0	$10.0	$10.0
Subtotal expected outflow	*$570.2*	*$651.0*	*$834.0*	*$862.5*	*$871.0*
Projected funds available	*$368.6*	*$292.8*	*$114.7*	*$91.2*	*$87.7*

* Column for 2025 includes income/expenses since 2009. For ease of use, Financial Years (July-June) are taken as calendar years.

‡ Tentative and dependent on CFP approval.

§ Reserved funds to monitor reversals post-CF until 2037.

Annex E – Novation

To present CFPs a full plethora of options, a third option was identified but deemed to not be a viable option. Under this option, novation, all FCPF ERPAs would be wholly subsumed by the SCALE Umbrella Trust Fund from both a legal and operational perspective. While at first glance this may appear as a suitable option, the implications far extend beyond the mere changing of the name in the legal agreement between the World Bank and the Carbon Fund countries. Main issues:

1. **Added bureaucracy, exceptions and clearances** related to the need to coordination both novation and ´transfer of funds´ would happen in a coordinated manner, and it would require to all Contributors to agree joining SCALE. Main issues:

a. Time-consuming amendments and approval process for all ERPAs (changes to trust fund name and number, preamble, General Conditions, Charter, disbursement letter, probably there won't be Tranche A or Tranche B under SCALE Multi-Donor Trust Fund (MDTF) so the contract ERs and other terms impacted from this such as call option conditions, Minister/Parliamentary level approval of the revised ERPAs on client side such as Ghana, etc.).
b. Since SCALE MDTF does not have enough funds, FCPF CF Contributors would have to unanimously agree to withdraw funds from the FCPF CF, sign AAs with SCALE Anchor for amount corresponding to their pro-rata share, transfer funds from FCPF CF to SCALE MDTF, approve the annual work plan containing the new ERPAs. Both novation and ´transfer of funds´ would happen in a coordinated manner.

2. **Impact on country delivery until 2028:** Likely negative impact to countries. Since ERPAs would be transferred to SCALE MDTF and revised, this would require significant interaction with (typically low capacity) countries and likely disrupt and deviate country resources and focus from ER delivery to ERPA novations/amendments, etc. Delays on the signature of one of the ERPA amendments would delay the transfer.

Taken in whole, this option is deemed to be severely disruptive for Carbon Fund countries and cumbersome for CFPs, while offering little advantage over the two other options available to CFPs. As such, this option is not considered to be a viable option and is not presented to CFPs for consideration.