



Forest Carbon Partnership Facility

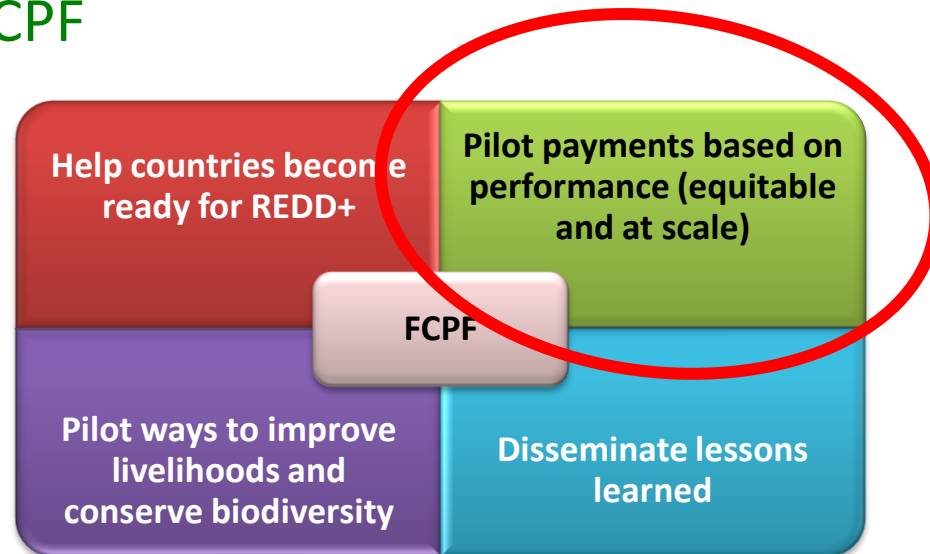
The FCPF Carbon Fund

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Introduction

- The Carbon Fund is integral part of the FCPF's Charter and at the heart of the FCPF



- Became operational in May 2011
- Methodological work is ongoing
 - Estimate of emission reduction potential of programs
 - Pricing

Objectives of the Carbon Fund (1)

- **Mandate**

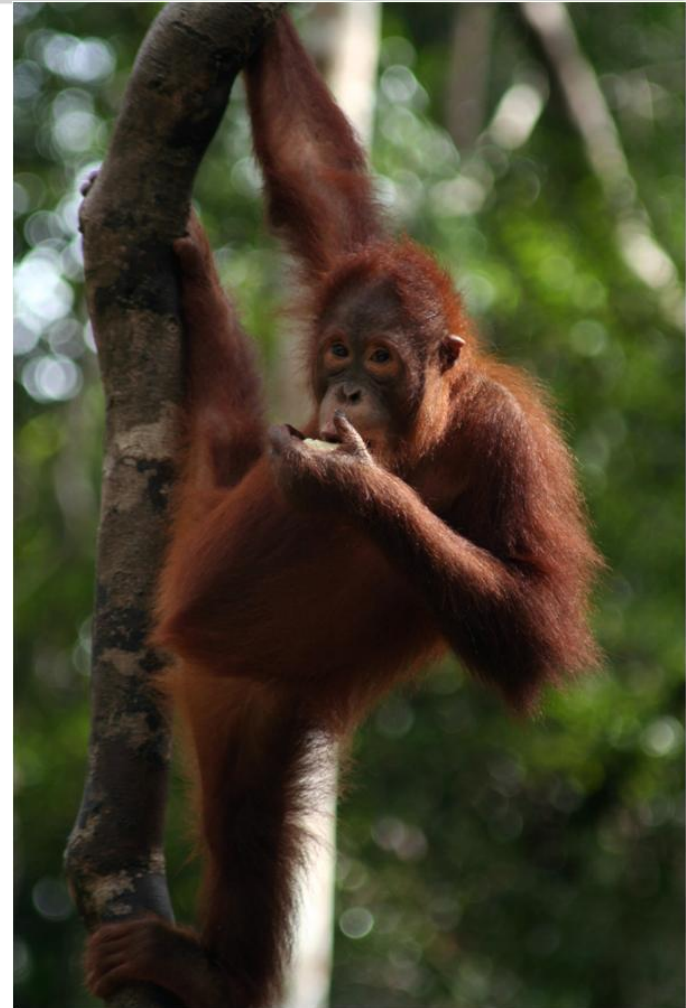
- Pay for Emission Reductions (ERs) from REDD+ programs and deliver them to the Carbon Fund (Tranche) Participants

- **Objectives**

- Kick-start large-scale performance-based payments and produce useful experiences through a public private-partnership
- Deliver ERs generated by ~5 REDD+ programs that
 - Are submitted by governments or entities with government approval
 - Are undertaken at a significant scale, e.g., at the level of an administrative jurisdiction within a country or at the national level
 - Are consistent with emerging compliance standards under the UNFCCC and other regimes
 - Are consistent with national REDD+ strategy and emerging MRV system and REL
 - Are based on transparent stakeholder consultations
 - Generate environmental and social co-benefits (safeguards, biodiversity)

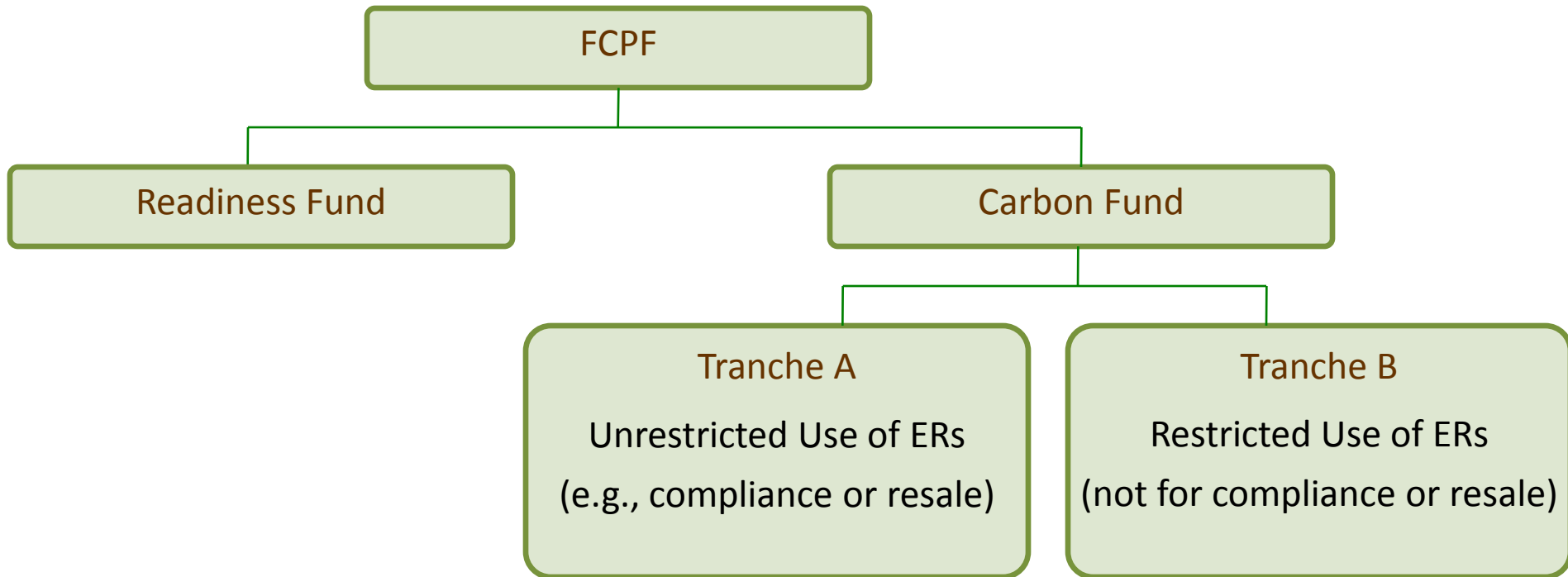
Objectives of the Carbon Fund (2)

- The Carbon Fund is NOT the carbon market for REDD+
- Performance-based payments \neq market
 - World Bank or FCPF do not have authority to create a carbon market for REDD+
 - Carbon markets for REDD+ may be created in the future by
 - UNFCCC
 - Countries
 - Sub-national entities
 - Groups of countries
 - Carbon Fund aims to demonstrate how REDD+ can be implemented and accounted for at scale (unlike CDM projects)
 - Performance-based payments will be used regarding of the source of the money or the use of the emission reductions



Carbon Fund Organization in Two Tranches (1)

Carbon Fund's arrangements recognize and protect different interests and objectives among Participants



Carbon Fund Organization in Two Tranches (2)

- Financially
 - Tranche A: \$38 million
 - Tranche B: \$175 million (82%)
- Spirit: Two Tranches operating as one
 - Tranches will review Emission Reductions (ER) Programs together and hopefully enter into transactions (Emission Reductions Payment Agreements or ERPAs) with the same Programs
- Legally
 - Each Tranche will sign separate ERPAs even if the terms are identical
- Practically
 - A country transacts with the Trustee (World Bank) regardless of the Tranche structure
 - Buyer representatives in ERPA negotiations may be different depending on which of the Tranches will enter into transaction

What Does This Mean in Practice?

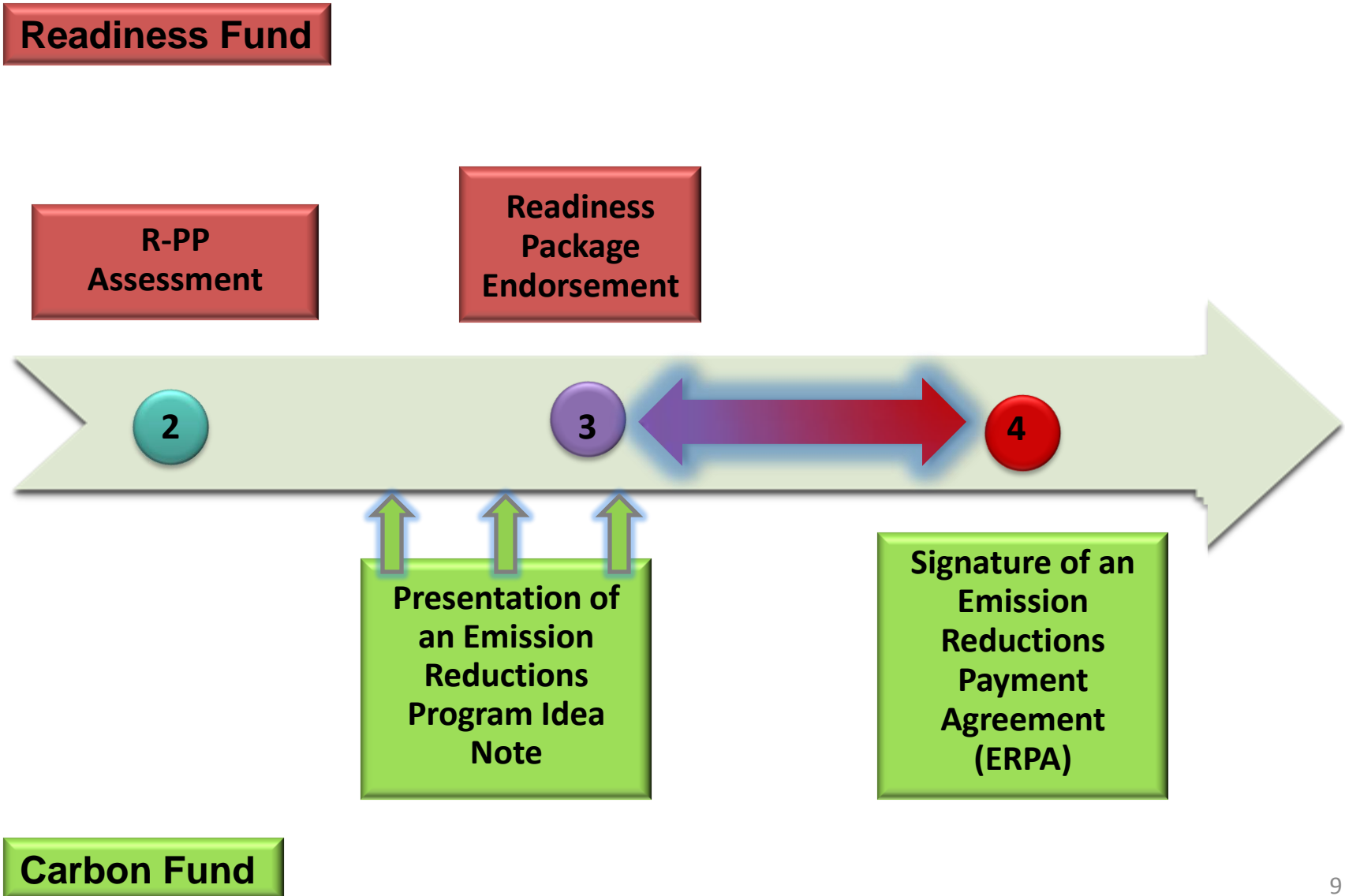
- Most early stage REDD+ transactions rely on a “project approach” which has operationally a number of advantages:
 - Normally only few landowners or one concessionaire
 - VCS methodology ready to use
 - Typically a contract between private entities
 - Ring-fenced approach, concentrating on specific drivers only
- Carbon Fund focus on a large scale, e.g., administrative jurisdictions (national or sub-national) is an innovative approach and needs demonstration
 - Mix of policies and investments
 - Focus on national or sub-national development strategies
 - Innovative financial structures and arrangements are needed
 - Multi-stakeholder, multi-tenure, programmatic approach

ER Programs and Activities

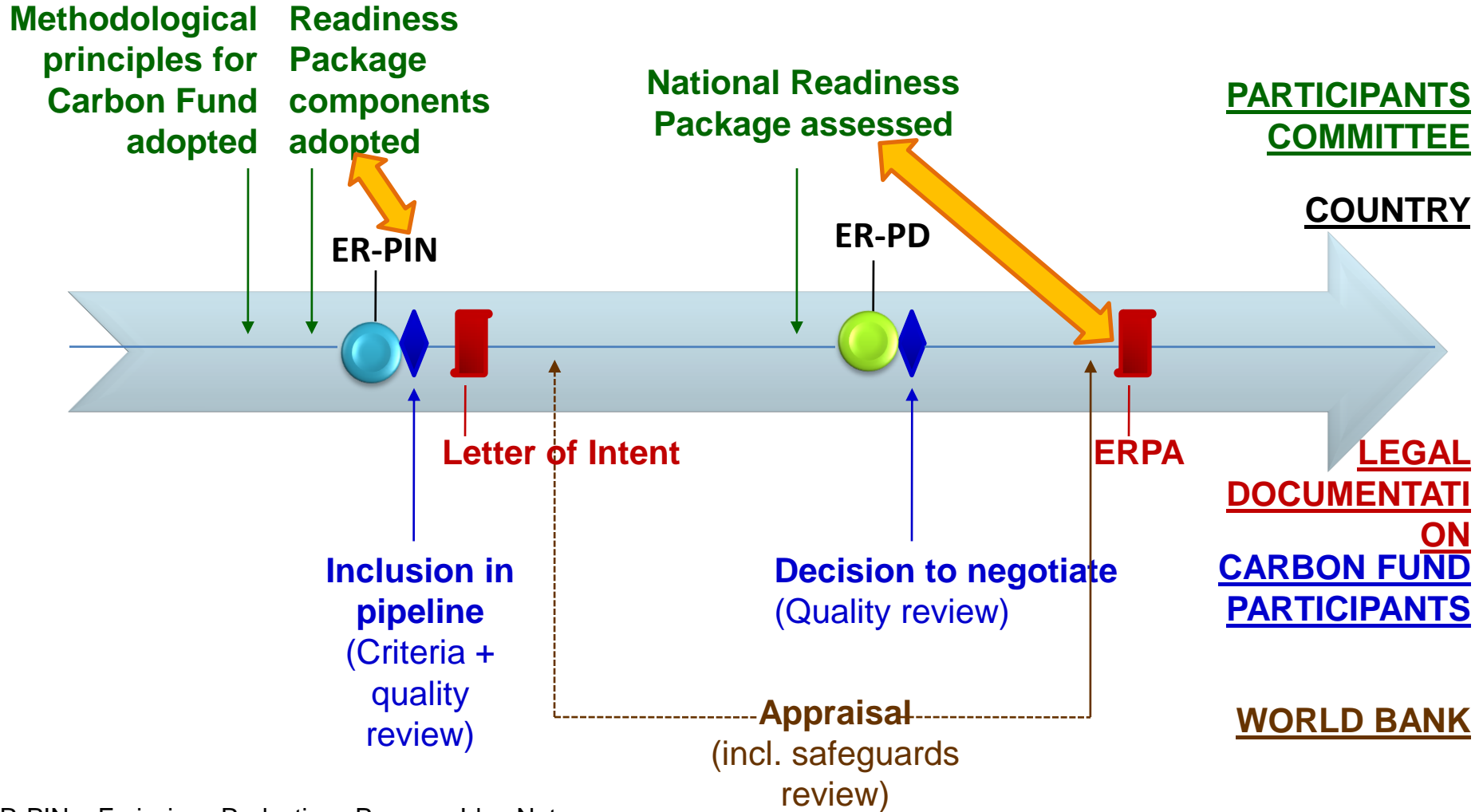


- Compared with REDD+ projects, ER Programs at a state or municipal level typically propose multiple activities, policies and investments, as a coordinated set
- Prioritization of activities will depend on the national context, the drivers and cost-benefit implications
- ER Program will also depend on progress already made in a country

Proposed Business Process (1)



Proposed Business Process (2)



ER-PIN = Emissions Reductions Program Idea Note
 ER-PD = Emission Reductions Program Document
 ERPA = Emission Reductions Payment Agreement

Proposed Business Process (3)

- Interested country is welcome to make early presentation of its ideas (Indonesia did in October 2011)
- ER Program Idea Note (ER-PIN) can be formally presented once the principles for the methodological framework and the Readiness Package component are adopted (tentatively October 2012)
- ER-PIN to provide early information about ER Program
- Draft template for ER-PIN available (but will change)
- More information about the Program will likely be needed, building on ER-PIN
 - ‘ER Program Document’
 - Content and template still to be defined but will further elaborate on information provided in ER-PIN

Methodological Framework (Ongoing Discussions)

- Methodological framework for the Carbon Fund will not provide a step-by-step methodology (along the lines of a CDM methodology)
- But will provide standards to compare different approaches proposed by countries / programs
- Process
 - PC to provide principles for the methodological framework (expected June 2012)
 - Carbon Fund to build on these principles and develop more detailed standards
- Possible elements (being discussed):
 1. Endorsement and REDD+ Strategy
 2. Consistency with UNFCCC
 3. Safeguards
 4. Stakeholder participation
 5. Benefit sharing
 6. Scale (or ambition)
 7. Sustainable development (or non-carbon values)

Pricing Guidance (Ongoing Discussions)

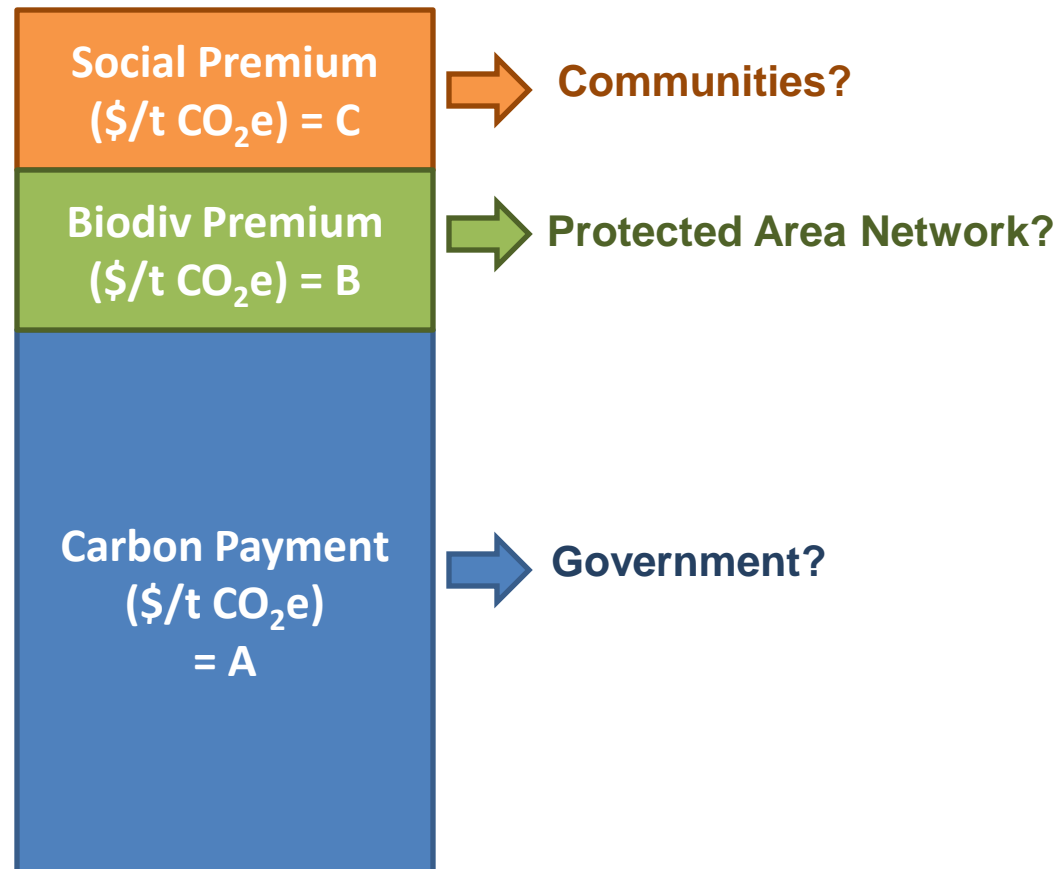


- Possible elements (being discussed):

1. Pricing should be fair and flexible, be kept as simple as possible and protect both parties from extreme price fluctuations
2. Prices should be a combination of fixed and floating portions, where feasible. The respective shares of the fixed and floating portion may vary across ERPAs
3. Prices should result from negotiations between the CF Participants and the ER Program sponsor, based on their respective willingness to pay or receive payment. Negotiations should be informed by relevant information such as market surveys or transaction benchmarks
4. Negotiations offer an opportunity for non-carbon benefits to be taken into consideration, although there would be no systematic evaluation of non-carbon values under the Carbon Fund

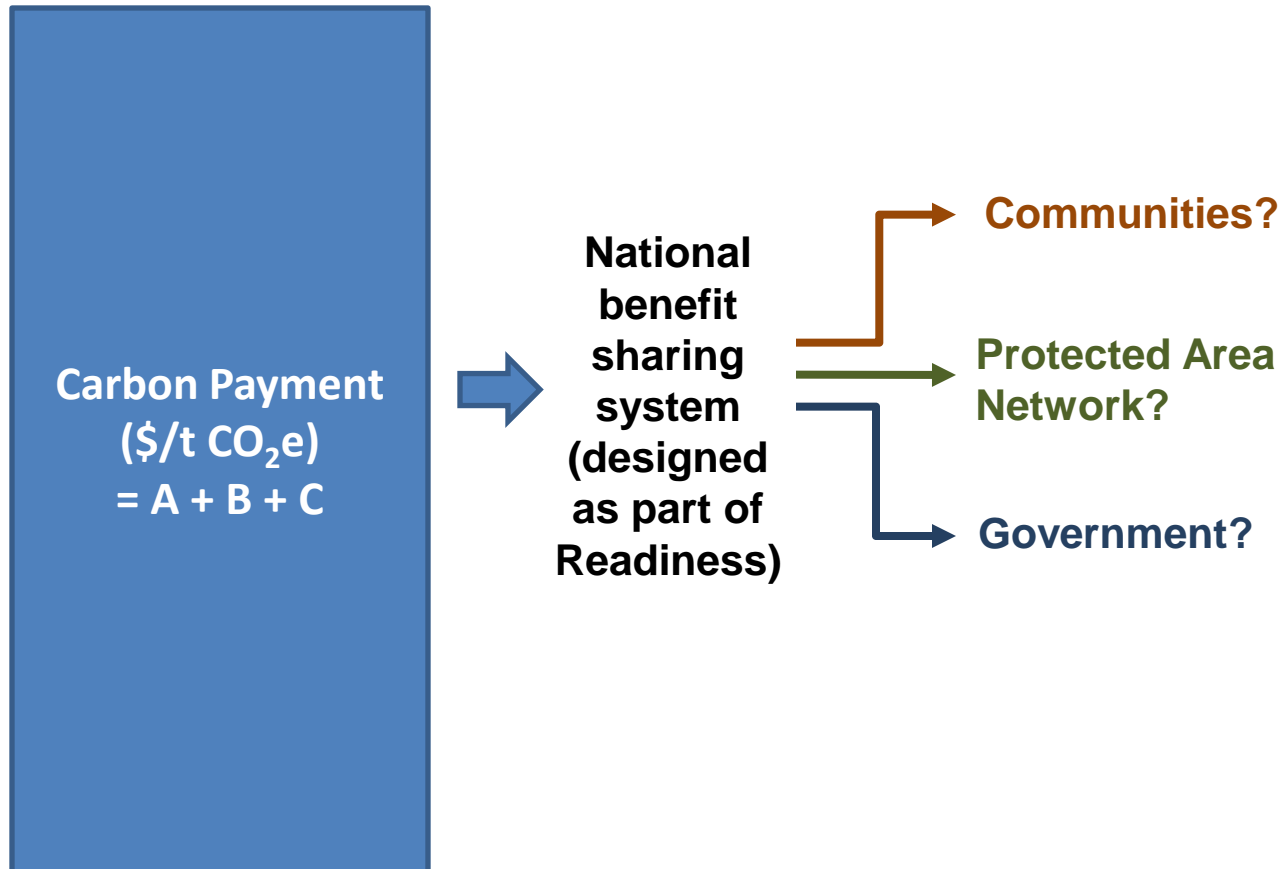
Pricing and Benefit Sharing (1)

Option 1 (hypothetical)



Pricing and Benefit Sharing (2)

Option 2 (hypothetical)



An aerial photograph of a vast, dense forest. The trees are mostly green, with some brownish patches, suggesting a mix of species or perhaps a dry season. In the far distance, a body of water is visible, possibly a lake or a wide river. The overall scene is a lush, natural landscape.

Asante

Thank you

Merci

Obrigado

www.forestcarbonpartnership.org/fcp/node/277

Photo credits: Rhett Butler