

Forest Carbon Partnership Facility (FCPF)

Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF (WG)

3rd conference call (March 1, 2012)

Background Note #4

Examples of Non-Carbon Values as Price Determinants in the World Bank's Carbon Finance Business

This note responds to a call by the WG members for examples of price premia to reflect non-carbon values in existing carbon finance transactions under carbon funds managed by the World Bank.

1. BioCarbon Fund

Premium for environmental and social benefits

The BioCarbon Fund (BioCF) is a public-private initiative mobilizing resources for pioneering projects that sequester or conserve carbon in forests and agro-ecosystems. About 80 percent of BioCF resources are earmarked for afforestation/reforestation (A/R) projects that use multiple carbon sequestration technologies; the remainder has been allocated to forest protection and sustainable land management projects.

The projects supported by the BioCF bring additional environmental, social and economic benefits to the local communities, such as biodiversity conservation, watershed protection, soil regeneration, employment and income generation, increased land tenure security, increased local capacity, and strengthened local institutions and communities.

The additional benefits of the BioCF projects are taken into consideration to adjust the price as follows:

- A base price (for temporary CERs or tCERs, given that the reference framework is mainly A/R under the CDM) is determined depending on market conditions (the willingness to pay for tCERs is less than permanent CERs);
- The additional benefits of the project are assessed by the trustee through an evaluation matrix consisting of a series of environmental social criteria which, after the project is screened against them, lead to a rating between 0 and 1;
- The premium offered is determined by the rating multiplied by a maximum premium;¹
- The price offered is the base price plus the premium offered.

Monitoring of environmental and social benefits

No specific monitoring of the environmental and social benefits is provided for, aside from the regular World Bank supervision.

¹ For example, if the maximum premium per tonne is USD 0.5 and the rating is 0.75, the premium offered is USD 0.375.

2. Community Development Carbon Fund (CDCF)

Premium for environmental and social benefits

The Community Development Carbon Fund (CDCF) provides carbon finance to projects in the poorer areas of the developing world. It promotes a co-benefits approach to climate change mitigation by linking carbon finance to tangible poverty reduction and sustainable development outcomes. It strives to purchase ERs from small-scale projects that provide direct or indirect community benefits. Community benefits are identifiable and quantifiable improvements in the quality of life or the environment of local communities. Direct benefits typically arise through the project itself whereas indirect benefits result from activities that are developed alongside with the project within an agreed Community Benefits Plan (CBP).

CBP activities are identified and designed in consultation with the project developers, beneficiary communities, the World Bank and other stakeholders; then financed by a price premium attached to each ER sold to the CDCF. The price premium applied is about USD 1, regardless of the ER price (Certified Emission Reductions or Verified Emission reductions). On some occasions, these funds can be provided in advance of the ER sale or as a grant.

Monitoring of environmental and social benefits

CBP monitoring is integral to the legal requirements under the Emission Reductions Purchase Agreements (ERPAs). Under the CDCF ERPAs, the project developer undertakes to implement an agreed CBP which comprises a set of measures leading to enhanced local environment and communities livelihoods. Legally the CDCF can withhold payment of the premium if the CBP implementation is not satisfactory. A synopsis of the CBP agreed for 18 of the 27 projects of the CDCF is available at http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/CDCF_CBP_Synopsis_10-1-11_Final.pdf. The report provides, for each project, a description of the envisaged activities under the CBP and the monitoring arrangements.