



Forest Carbon Partnership Facility

Carbon Fund Update

FMT Note 2010-12

Fifth Meeting of the Participants Committee (PC5)

La Lopé, Gabon

March 22-25, 2010





Outline

1. Progress to Date
2. Private Sector Involvement
3. Need for Early Financial Incentives
4. Next Steps To Make the Carbon Fund Operational



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Capitalization to Date

- Carbon Fund declared open for contributions in June 2008
- Threshold to become operational: **US\$40 million**
- Contributions to date = **~\$34 million** (subject to XR fluctuations) from 3 sovereigns and one (non-profit) private entity:
 - European Union: US\$ 6 million
 - Germany: US\$13 million
 - Norway: US\$10 million
 - The Nature Conservancy: US\$ 5 million

Capitalization: Pledges

- Pledges expected to be converted into contributions (by June 2010):
 - Germany: ~US\$25 million (*pending Parliamentary approval of budget, assuming that Germany will allocate US\$20 million to the Readiness Fund out of its remaining ~US\$45 million pledge to the FCPF*)
 - UK: ~US\$16 million (*UK Participation Agreement still being negotiated; £11.5 million reserved for Carbon Fund in Strategic Climate Fund*)
 - US: US\$5 million (*approved by Congress, pending signature of Participation Agreement*)
- Total pledges to date **~US\$80 million**
- Enough funding to become operational with existing CF Participants and additional sovereign sources

Capitalization: Additional Prospects

- Capitalization target: **US\$200 million**
- Expressions of Interest (non-disclosure agreements) signed by several governments and private companies
 - 1 more government very interested in participating
 - 2 companies close to a decision to participate
- Consultation with public and private sector held in London in September 2009
 - Revealed good interest
 - Some organizational questions to be clarified (see below)
 - Decision made to launch/announce the Carbon Fund once at least one private firm has signed up (see below)



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Encouraging Private Sector Involvement

- Official Development Assistance (ODA) flows will not be enough to finance REDD+ in the long run; private finance is needed
- The FCPF was designed to be a public-private partnership (Charter and Information Memorandum)
- September 2009 consultation re-confirmed overall objectives of piloting and testing REDD+ transactions via the Carbon Fund
- Private sector entities see the Carbon Fund as a strategic learning opportunity as well as investment
- But there are still lots of uncertainties preventing private sector involvement in REDD+:
 - UNFCCC process?
 - US legislation?
 - EU legislation (incl. EU ETS)?

Diversity of Interests

- Current and potential Participants come to the Carbon Fund with different interests and objectives:
 - Compliance vs. others (ODA, voluntary, Corporate Social Responsibility)
 - Large vs. small entities
 - Sovereign vs. private entities
 - Interests in different national or regional regimes

Protection of Interests (1)

- Need to recognize and protect all interests in decision making
- Charter currently gives advantage to largest Carbon Fund

Participants:

- Default is to adopt decisions by consensus, but
- If no consensus can be reached, then decisions are adopted by vote:
 - Votes based on contribution size (1 vote per US\$1 million)
 - Decisions adopted by simple majority of votes
- Potential private sector contributors see this rule as a deterrent
- London Sept.2009 consultation suggested ways to overcome this issue:
 - Modify the decision-making process
 - Segregate the Participants into different groups, each with its own decision-making process

Protection of Interests (2)

- Options for modifying the decision-making process:
 1. Require that consensus be reached for any decision to be adopted
 2. Modify voting rights:
 - 1 vote per Participant
 3. Modify majority requirements for adopting decisions:
 - 2/3 majority
 - 3/4 majority
 - Double majority: Majority of the Participants with right to use or resale ERs + Majority of the Participants with no right to use or resale ERs (as per terms of their Participation Agreements)
 - Option 1 would risk causing deadlocks
 - Options 2 and 3 can be combined
- Segregating Participants into two groups, each with its own decision-making process
- Either one requires amendment to the FCPF Charter
 - With unanimous consent of Carbon Fund Participants



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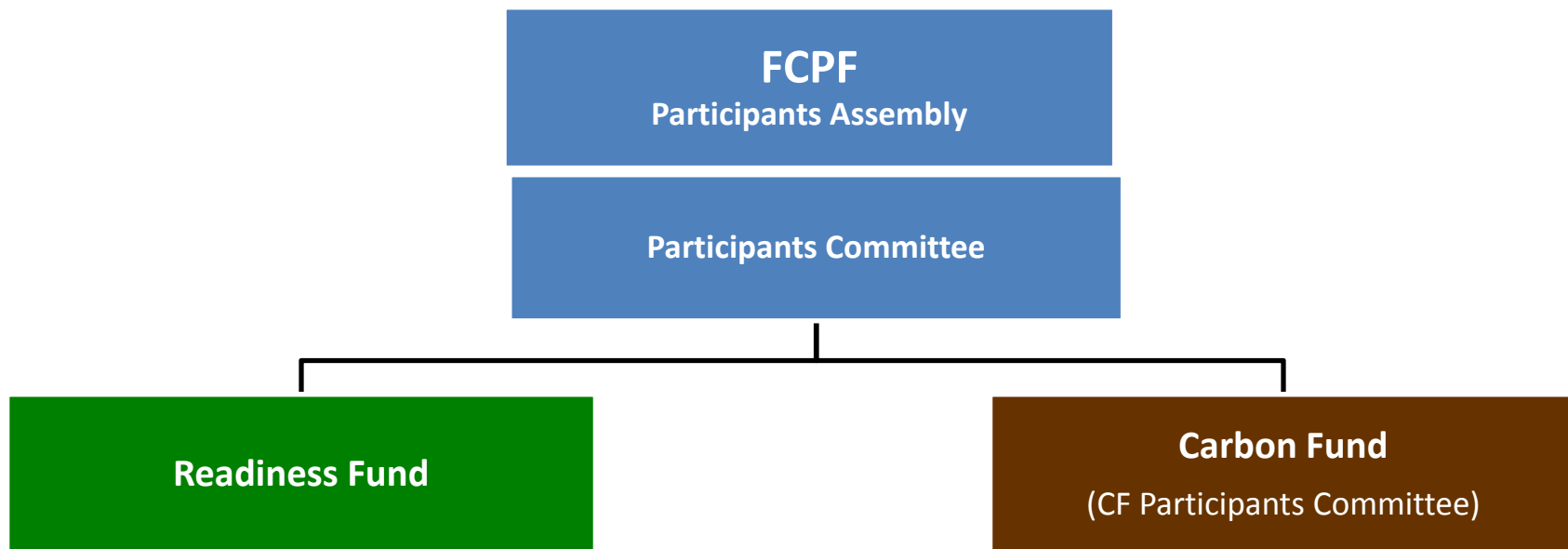
REDD+ 'Phases'

- Can the FCPF contribute to the 3 “phases” of REDD+ (UNFCCC/LCA text)?
- Quite clear for ‘phase 1’ and ‘phase 3’:
 - Readiness Fund contributes to ‘phase 1’ (development of national strategies)
 - Carbon Fund contributes to ‘phase 3’ (results-based actions [that are fully measured, reported and verified])
- Question for ‘phase 2’ (results-based demonstration activities):
 - How are ‘results’ defined? Can they mean Emission Reductions (ERs)?
 - Yes, presumably
 - Could a dedicated Tranche under the Carbon Fund be set up to make payments for this kind of ERs?
 - Yes, this is possible in the Charter
 - Would this Tranche also provide investment finance?
 - No (that is the focus of the FIP, GEF, multilateral and bilateral assistance, private sector)

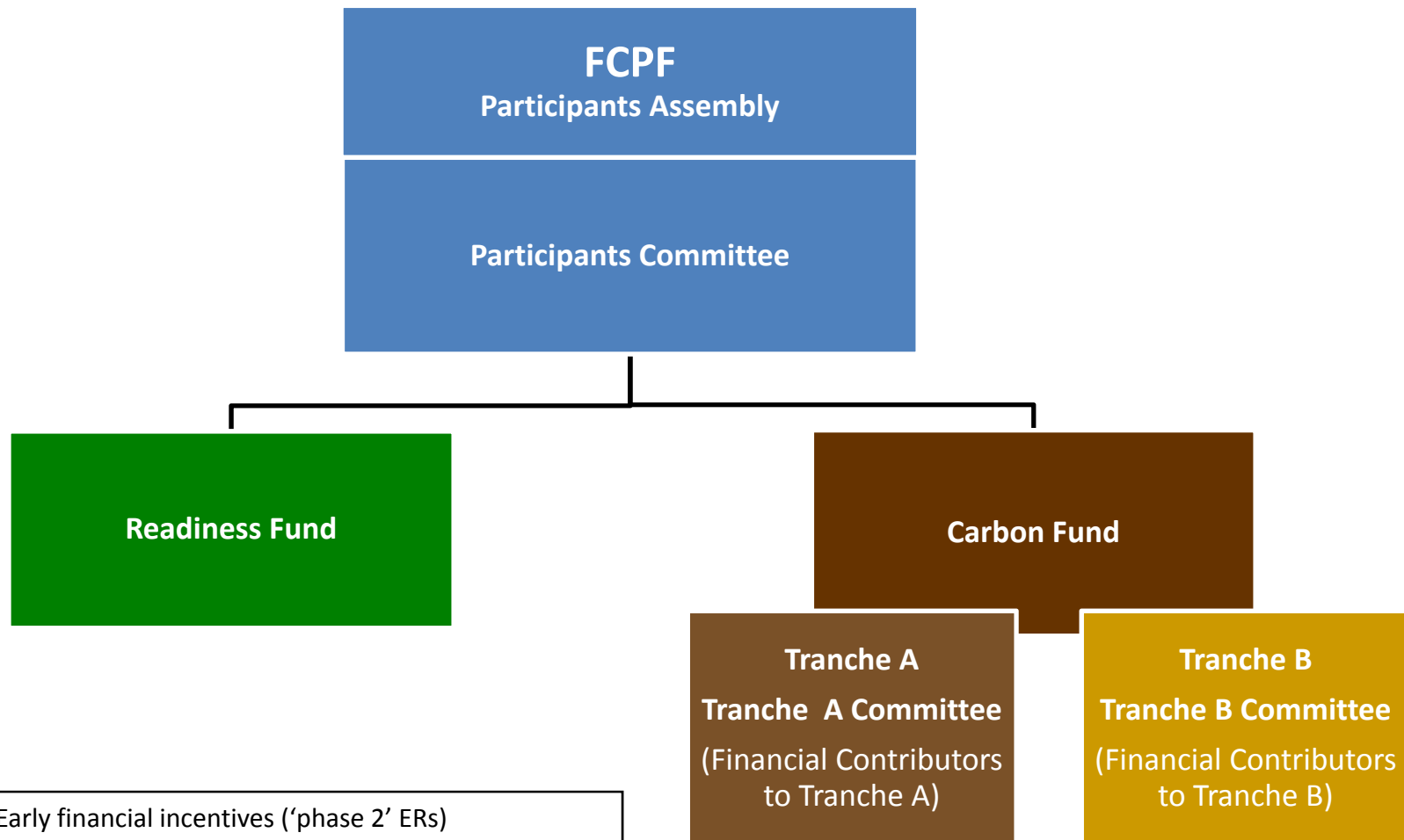
REDD+ 'Phases'

- Possible Carbon Fund structure:
 - Tranche A: 'phase 2' payments
 - Tranche B: 'phase 3' payments
- This structuring would require an amendment to the Charter to specify the definitions of the ERs that would be paid for by Tranches A and B (current Charter contains a single ER definition)
 - With unanimous consent of the Participants Committee

Current Carbon Fund Structure



Proposed Carbon Fund Structure



Tranche A: Early financial incentives ('phase 2' ERs)

Tranche B: 'Phase 3' ERs (all Participants together, with modified voting arrangements; or split between those seeking compliance/resale and the others)



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Next Steps

- Finalize UK and US Participation Agreements
- Conduct consultation with existing and potential Carbon Fund Participants (April-May, TBD)
- Sign up 1-2 private sector Participants
- Prepare for launch – possible launch dates and venues:
 - Carbon Expo (Cologne, May 28, 2010)
 - UNFCCC session (Bonn, June 2010)
 - UN General Assembly (New York, September 2010)
 - FCPF annual meetings (Washington, October 2010)
 - G20 meeting (Seoul, November 2010)
 - CoP16 (Cancun, December 2010)
- Prepare marketing plan



THANK YOU

www.forestcarbonpartnership.org