



Forest Carbon Partnership Facility

Carbon Fund: Update and Operationalization

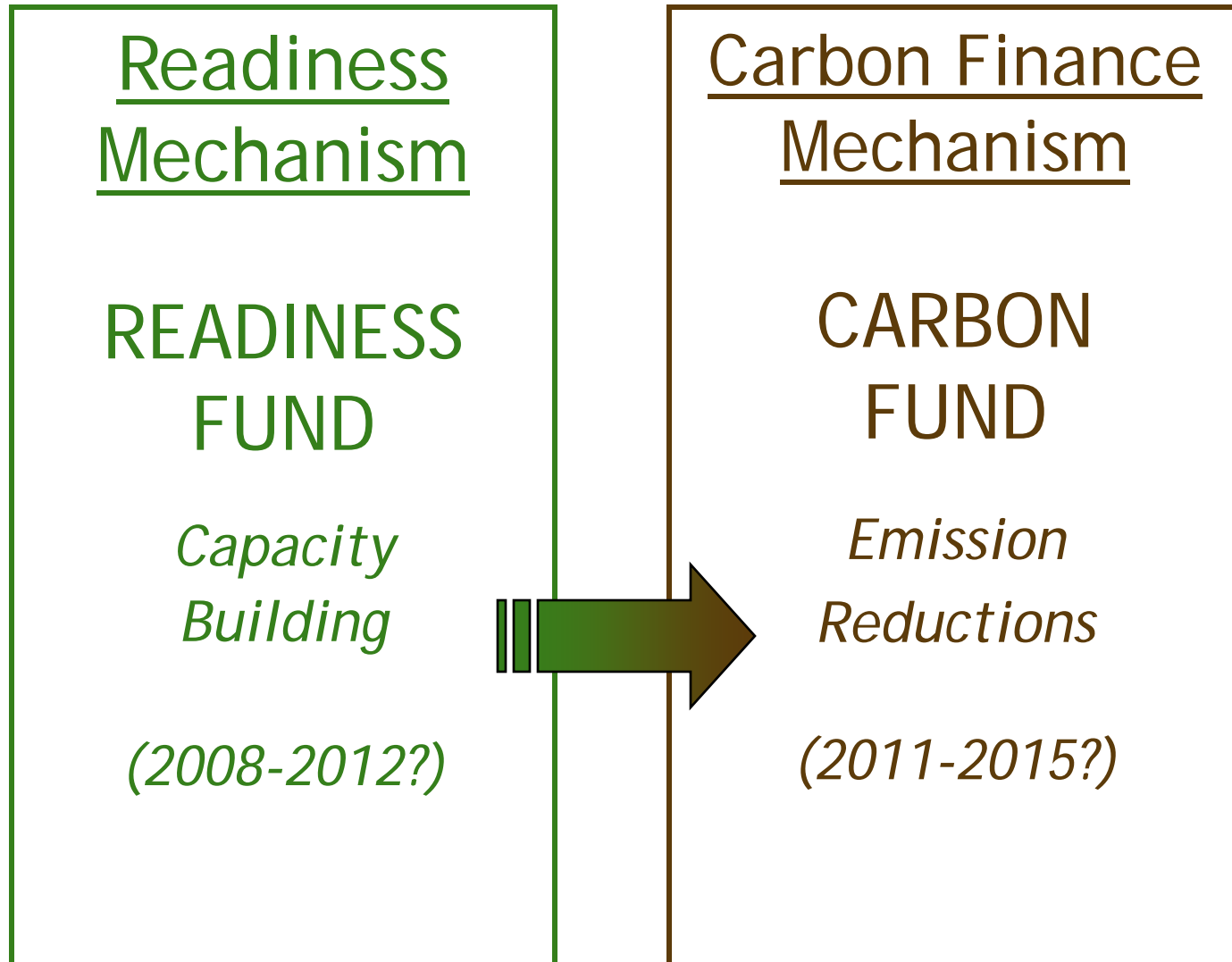
Sixth Meeting of the Participants Committee (PC6)

Georgetown, Guyana

June 28-July 1, 2010



Two Mechanisms of the FCPF



Progress since PC5

- As decided at PC5, consultations were held on the Carbon Fund with representatives of existing and potential Carbon Fund Participants and REDD Country Participants to discuss key outstanding aspects:
 - Frankfurt (hosted by KfW), May 5-6, 2010
 - Bonn, May 31-June 1, 2010
- Key outstanding aspects detailed in the following slides

Types of Emission Reductions Programs

- The Carbon Fund aims to support ER Programs that:
 1. Focus on results, namely high-quality and sustainable ERs (including social and environmental benefits)
 2. Are undertaken at a significant scale, e.g., at the level of an administrative jurisdiction within a country or at the national level
 3. Are consistent with emerging compliance standards under the UNFCCC and other regimes
 4. Are sufficiently diverse to generate learning value
 5. Use clear mechanisms so that the incentives for REDD+ reach those who need them
 6. Are based on transparent stakeholder consultations
 7. Generate ERs at a fair price

Sub-national – National Linkages

- Where a sub-national ER Program is envisaged, the following elements should be addressed for it to be considered for inclusion in the Carbon Fund's pipeline:
 - Consistency with the national REDD+ strategy or the emerging national REDD+ strategy
 - Approval by the national institution responsible for REDD+
 - Consistency with the emerging national REDD+ monitoring system
 - Consistency with the national Reference Emission Level (REL) / Reference Level (RL), or with the national approach establishing the REL/RL
 - Assessment and minimization of the risk of leakage

Advancing ER Programs

- The Carbon Fund should play a catalytic and demonstration role
- Carbon Fund commitments should be made early enough to provide countries that made progress in REDD+ actions with incentives, subject to the agreed assessment by the Participants Committee
- The selection of potential ER Programs by the Carbon Fund Participants should not necessarily wait for the REDD Country's Readiness Package to be assessed by the Participants Committee, subject to the elements on the previous slides

Engagement with Non-REDD Country Participants

- The only ER Programs selected into the Carbon Fund will be from countries that are REDD Country Participants.
 - [FMT's Note: Per Resolution PC/2/2009/1, accepting new countries into the Readiness Fund is subject to an independent evaluation of the FCPF]

Pricing Approach

- Different options should be made available, which would be selected on a case-by-case basis, seeking to achieve fairness for the sellers and buyers
- The FMT was tasked with elaborating, in its note on pricing/valuation approach, potential pricing options, including:
 - Fixed price
 - Fixed + variable price (relative to a reference price)
 - Various types of auctions (e.g., Dutch auction, highest bidder, auction with reservation prices, auctions of ERPA or ERs already verified, etc.)
- It should be kept in mind that the pricing mechanism is only relevant for the Carbon Fund as a catalytic and testing instrument and is not necessarily meant to set the stage for other transactions outside the Carbon Fund
 - The FCPF is also encouraged to analyze options involving buyers beyond the Carbon Fund

Carbon Fund Structure (1)

- Private Capital will be essential to make REDD+ sustainable.
- Carbon Fund is designed as a public-private partnership, hence it needs to be structured in a way that it also attracts private capital
 - Agreed that at least one private sector participants needs to join the Carbon Fund, before we can declare it operational

Carbon Fund Structure (2)

- It was agreed that the Fund would be structured in Tranches:
 - Tranche 1 for the group of Participants whose Participation Agreements do not include restrictions on the use of ERs or are essentially privately managed entities
 - Tranche 2 for the group of Participants whose Participation Agreements provide that ERs will not be used for compliance/resale and/or are essentially public entities or Governments
- Operationally, the Carbon Fund Participants will meet jointly and seek to adopt their decisions jointly
- In case of disagreements, the legal structure permits a separate decision-making process

Governance (1)

- The Carbon Fund is an essential part of the FCPF (as agreed in the charter)
 - The PC rules on
 - the Pricing Approach for Emission Reductions,
 - General Terms of Conditions
 - The Carbon Fund participants will select the ER Programs

Governance (2)

- The FMT proposes to enhance the partnership features of the Carbon Fund through the following measures:
 - Welcome (non-conflicted) REDD Country Participants to observe Carbon Fund meetings with a view to
 - Increasing the transparency of the Carbon Fund operations
 - Enhancing the learning-by-doing value of the Fund to a wide group of countries
 - Arrange for balanced representation of the parties to the ERPA at negotiations
 - For example, the ERPA negotiations could include the following parties: the REDD Country representative(s), the Carbon Fund Participant representative(s) and the Trustee providing advice in a transparent and neutral manner

Resource Mobilization

- **For the Carbon Fund:**
 - Develop a marketing plan and 'road show' to attract primarily compliance buyers
 - Further public contributions are needed to reach the target of US\$ 200 million
- **For the REDD Country Participants:**
 - Favor ER Programs from which the Carbon Fund would only buy a small share of ERs, if financially feasible for the seller
 - Explore possibilities to syndicate ERs to buyers outside the Carbon Fund

Financial Commitments

Current Contributions to the FCPF Carbon Fund (\$m) as of June 15, 2010

	FY09	FY10	FY11	Totals
<i>EC</i>	6.3	0.3		6.7
<i>Germany</i>	7.8		4.9	12.7
<i>Norway</i>	10.0			10.0
<i>TNC</i>	5.0			5.0
<i>UK</i>			17.0	17.0
<i>confirmed total</i>	29.2	0.3	21.9	51.4
Germany (tbc)			12.2	12.2
Totals	29.2	0.3		63.7

Next Steps

- July: FMT revises the Information Memorandum chapter on the Carbon Fund reflecting inputs from the consultations, and makes it available for comments, including
 - Tranches, including legal and practical arrangements
 - ER Program selection criteria
 - Business processes, including link between readiness and carbon finance
 - Roles of Participants and observers
 - Pricing options
- August-September: Trustee sets up Tranches (Note: prospects can still sign Participation Agreement before then)
- From August onwards: Continue exploration of pricing options
- Before end of October: At least one private company signs the Participation Agreement for the Carbon Fund
- First week of November (PA3/PC7): Carbon Fund launch