



# Forest Carbon Partnership Facility

## Session 5a. Update on the Carbon Fund

Eighth Meeting of the Participants Committee (PC8)

Dalat, Vietnam

March 23-25, 2011

# FCPF Carbon Fund: A Program of Piloting and Testing

- Established during design phase of the Facility over 2006-2008
- \$200 million targeted towards about 5 programs
- Testing, learning by doing, ‘priming the pump’
- Intended to help inform UNFCCC negotiations with early lessons learned
- Must align with emerging guidance – without pre-empting what the Parties to the UNFCCC may decide
- It is ***not*** the mechanism for “results-based actions” (performance-based payments) of the future or a carbon market for REDD+

# Carbon Fund Objectives

Fund objectives remain relevant:

- To test and demonstrate financial mechanisms to support large-scale programs to create high-quality Emission Reductions (ERs) from REDD+ Programs that 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
- Payments made based on verified Emission Reductions
- Sub-national ER Programs need to be consistent with National REDD+ Strategy, Measurement Reporting and Verification (MRV) system and Reference Emissions Level (REL)

# Timeline and Status (1)

- 2006-2008 design phase, mostly before Bali Action Plan of COP13, and LCA text on REDD+ of COP15/16
- Opened for contributions alongside the Readiness Fund on June 13, 2008
- Surpassed the minimum contribution level of the Charter by 2010, enabling the Fund to be made fully operational
- However – CF Participants aimed to encourage greater private sector participation and seek two more private sector participants before starting full operations

## Timeline and Status (2)

- Considerable work has continued to establish details of the Fund
- CF chapter in FCPF Information Memorandum (December 2007, reissued in 2008) updated in the form of an Issues Note
- Issues Note builds on 2006-8 design process – addressing linkages with Readiness Fund, objectives, types of ER Programs, quality levels, social and environmental safeguards, non-carbon values, tranches and voting of CF Participants, etc.
- Feedback on CF incorporated into Issues Note, from:
  - Presentations and discussions with the PC during PC4, PC5, PC6 and PC7
  - Detailed meetings with entities interested in the CF and some REDD countries over 2009-2010 in London, Frankfurt, Bonn and Cancun
  - September 16-17, 2010 meetings of existing and prospective Participants and observers in Washington, DC

## Timeline and Status (3)

- Comments from Participants and observers on September 28 version of the Issues Note
- Discussions with European and US companies in October
- Issues Note posted online for feedback in November, with revised version posted late-December
- Focused information exchanges with Indigenous Peoples from November through April 2011:
  - Information sharing with Indigenous Peoples in Washington (November 14-15, 2010)
  - Information sharing with Indigenous Peoples and local communities
    - in Ghana (November 17-19)
    - in Peru (February 2-4)
    - in Lao PDR (January 23-25)
    - in Thailand (planned April 8-10)

# Current Participation and Fund Capitalization

Contributions and Pledges to the FCPF Carbon Fund as of March 15, 2011 (US\$m)					
	FY09	FY10	FY11*	FY12*	Total*
<b>BP</b>			5.0		5.0
<b>European Commission</b>	6.3	0.4			6.7
<b>Germany</b>	7.8		24.5	13.9	46.2
<b>Norway</b>	10.0				10.0
<b>The Nature Conservancy</b>	5.0				5.0
<b>United Kingdom</b>			18.4		18.4
<b>United States</b>			10.0		10.0
<b>Committed Funding</b>	<b>29.1</b>	<b>0.4</b>	<b>57.9</b>	<b>13.9</b>	<b>101.3</b>
<b>Norway</b>				50.0	50.0
<b>Switzerland</b>			5.6		5.6
<b>Total Committed and Pledges</b>	<b>29.1</b>	<b>0.4</b>	<b>63.5</b>	<b>63.9</b>	<b>156.9</b>
* Amounts may vary due to exchange rate fluctuations.					



# Progress on Issues Specific to CF Participation: Organization of Tranches and Voting

Numerous meetings have addressed elements of CF Participation, with both public and private sectors expressing strong interest in clear tranche and voting arrangements

- Use of two tranches – “Tranche A” for unrestricted contributions to the fund and “Tranche B” for contributions with restrictions on the use of ERs (for example with ODA funding) is already available in the FCPF Charter
- However, CF Participants have worked together to finalize their voting arrangements (some text in Issues Note)
- In line with the spirit of the Charter, CF Participants have confirmed the principle of operating the CF as one fund, and a public-private partnership, to the greatest extent possible
- The interests of small and large contributors should also be balanced
- Agreement reached with existing and prospective CF Participants that relevant CF sections of the Charter be amended to clarify that consensus will be sought across both tranches for decisions, with default voting arrangements that give a voice to both small and large contributors



# Issue Linking the Readiness and Carbon Funds: Capping the Shared Costs

- FMT Note 2011- 2 reminds that the 'Shared Costs' include broad FCPF activities such as Participants Assembly and PC Meetings, travel of REDD Country Participants, work of the TAPs, the Secretariat functions of the FMT, etc.
- Per the Charter, the PC approves the Shared Costs each year, with the CF usually responsible for paying 35% of the total approved by the PC
- Some current and prospective Carbon Fund Participants are concerned that they could potentially bear unlimited Shared Costs that are outside of their control (all other costs in the Carbon Fund Annual Budget require approval by the CF Participants)
- Hence they are requesting the PC to establish an overall cap or upper bound on the Shared Costs to be charged to the CF over time – via draft Resolution PC/8/2011/x
- Per FMT Note 2011-2, the proposed cap of US\$12 million on the CF portion of the Shared costs is substantially above the projection of Shared Costs that would be paid by the CF; however this amount is intended to assure current and prospective CF Participants that these costs are not unlimited

# Next Steps for the Carbon Fund (1)

Two aspects of finalizing CF Participation and moving forward with operations are (1) capping Shared Costs to provide financial clarity; and (2) updating the Charter with agreements reached amongst existing and prospective CF Participants.

- (1) PC Resolution on Capping Shared Costs is sought at this meeting
- (2) The timeline to revise CF Sections of Charter has been agreed amongst existing and prospective CF Participants:
  - Revised note outlining agreements reached in principle to be sent to the CF Participants for their review/approval by April 15
  - Draft amendments to CF sections of the Charter to be circulated in parallel or shortly thereafter – aiming for the approval of all existing CF Participants (as stipulated in the Charter) around end-April
  - The draft amendments will also be circulated to PC for information
  - Amendments take effect once fully agreed by all existing CF Participants

# Next Steps for the Carbon Fund (2)

- Priority elements of the work program linking the Readiness Fund and the Carbon Fund also need to move forward
- Per the Charter, some key decisions related to FCPF transactions are made by the PC, such as:
  - Assessing country readiness to ensure that ER Programs start on a solid foundation
  - Establishing Pricing/Valuation Methodologies
  - Agreeing on general terms for future Emission Reductions Payment Agreements (ERPAs)

# Next Steps (3)

## Readiness and CF Linkages

- FMT will prepare template to propose ER Programs to be considered by the Carbon Fund (Emission Reductions Program Idea Note – “ER-PIN”)
  - Template to be circulated in next few months for review
- FMT will propose templates for preparing Readiness Progress Report and Package, and guidance for PC assessment
  - Before ERPA can be signed, REDD country needs to submit a Readiness Package to the PC
  - FMT will prepare draft guidance on topics to be covered and will consult broadly
- General Conditions for ERPAs:
  - FMT to draft legal General Conditions as basis for ERPAs to be signed between the Carbon Fund and REDD countries
  - Draft will be circulated in next few months, with the goal of presenting to the PC by November 2011

# Next Steps (4)

## Pricing/Valuation Methodology

- Pricing methodology should safeguard both seller and buyer interests and reflect opportunity costs of sellers and buyers. Methodology should:
  - refer to external prices for comparable transactions (FMT will not set price)
  - consider price fluctuations over time and find a formula to share price fluctuations seller and buyer
- Main challenges:
  - Thus far there are few comparable transactions as a reference
  - Difficult to assess different quality levels (MRV, delivery risk, sustainability)
  - How to identify an objective approach to value additional benefits?
- Next steps:
  - Share/discuss draft valuation methodology with PC during summer of 2011
  - Present valuation methodology to PC for consideration by November 2011



THANK YOU!

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