



Forest Carbon Partnership Facility

FCPF Carbon Fund: Draft Prospectus

Videoconference
September 1-2, 2011

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1. REDD+ Opportunities

REDD+ Credits (1)

- UNFCCC: Historical development at Cancun
 - Role of tropical and sub-tropical forests recognized under UNFCCC:
 - REDD+ will very likely be part of any post-2012 climate regime
 - REDD+ activities to be accounted for at national level (sub-national level on an interim basis):
 - Strategies, reference emission levels, and monitoring systems
 - Role of private sector in REDD+ financing to be determined:
 - Working Group on Long-term Cooperative Action to explore options
 - COP17 (Durban) will provide update if not decision

REDD+ Credits (2)

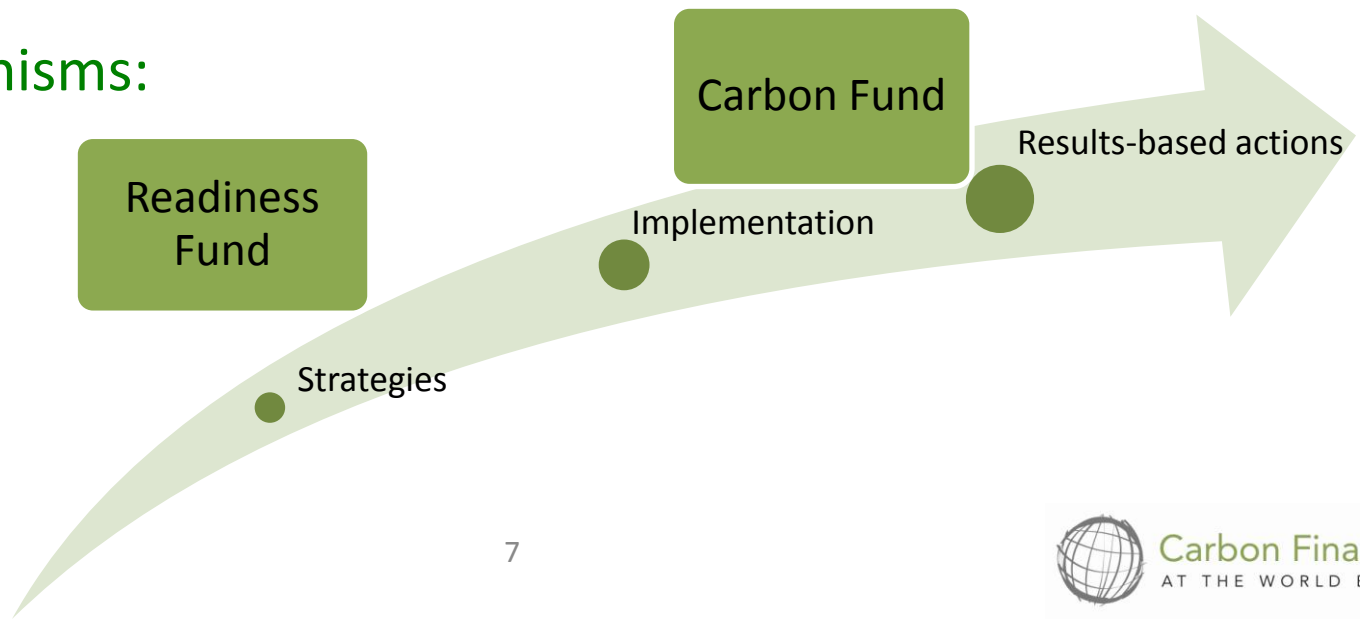
- **California's cap-and-trade system**
 - Expected to become operational on January 1, 2013
 - Allows offsets equal to 8% of total volume, REDD+ being the most favored source of international offsets
- **Uncertainty in other emerging regulatory regimes**
 - Australia has adopted Carbon Farming Initiative, but no international REDD+ offsets
 - EU ETS: Earmarking for REDD+ of EUA auction revenues, but no offsets
 - Japan?
 - USA?
 - Canada?
- **Voluntary markets**
 - REDD+ projects are being developed by private and public entities
 - Verified Carbon Standard (VCS) being the main standard applied
 - REDD projects make up 29% of the voluntary carbon market

Impact

- **Harness opportunities created by national REDD+ strategies**
 - New business opportunities
 - Realization of sustainability objectives
 - Impact on existing operations (especially for land users)
- **Integrate REDD+ projects into emerging national systems**
 - Strategies, REL, MRV
 - Move from projects to programs at jurisdictional level
- **Establish public-private partnerships**
 - Public and private sectors need each other
 - The private sector is a key actor (financial resources and instruments, and management capacity)

The FCPF (1)

- A global partnership to demonstrate REDD+ and inform UNFCCC through:
 - Capacity building, financial and technical assistance to REDD Countries
 - Piloting performance-based payments
 - Testing ways to enhance livelihoods and biodiversity
 - Disseminating knowledge and lessons learned
- G8 mandate in June 2007, operational since 2008
- Two mechanisms:



The FCPF (2)

Readiness Fund

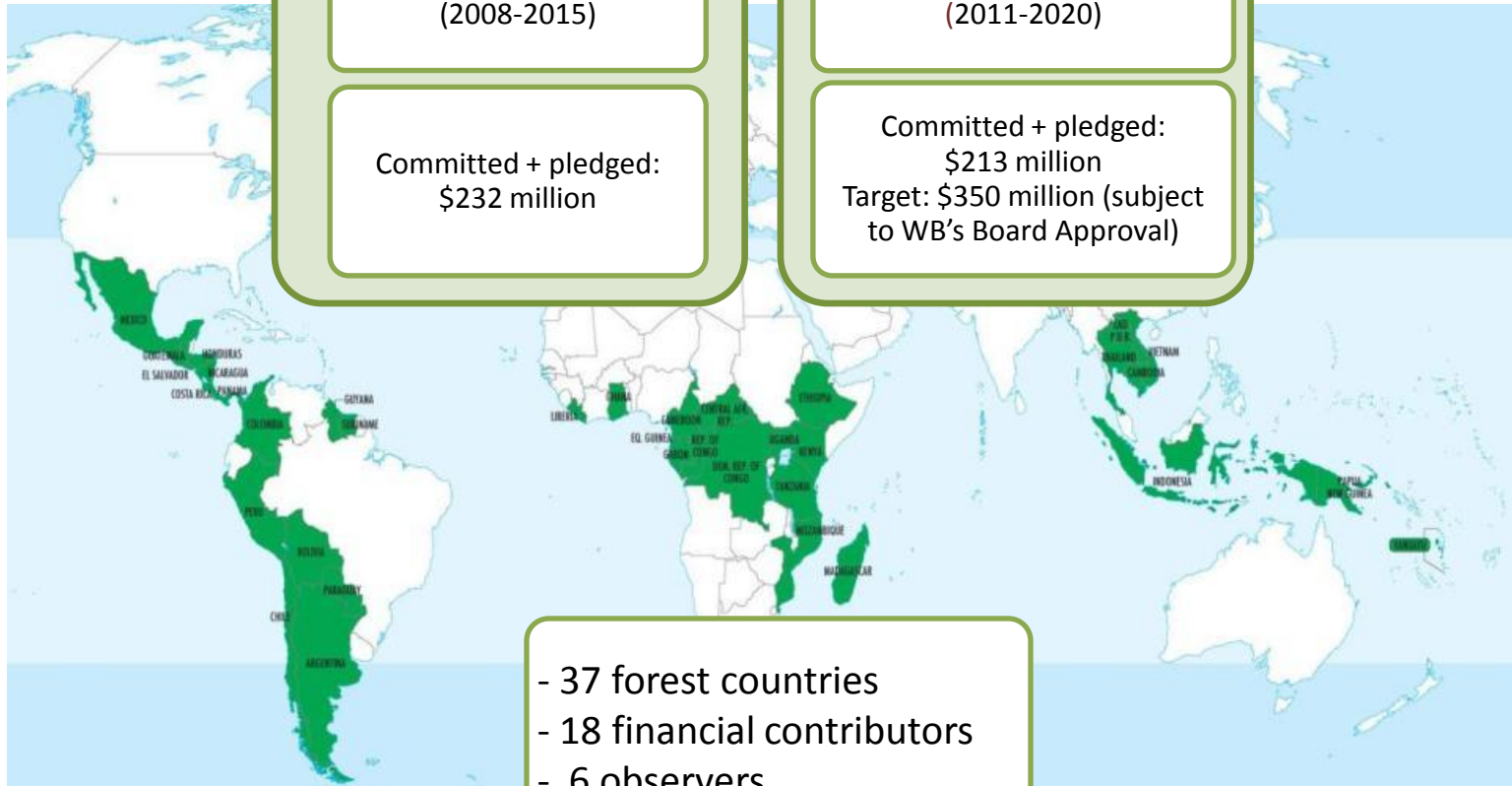
Capacity Building
(2008-2015)

Committed + pledged:
\$232 million

Carbon Fund

Emission Reductions
(2011-2020)

Committed + pledged:
\$213 million
Target: \$350 million (subject
to WB's Board Approval)



- 37 forest countries
- 18 financial contributors
- 6 observers

Financial Contributors to the FCPF

DONOR PARTICIPANTS

(Readiness Fund)

1. AFD
2. Australia
3. Canada
4. Denmark
5. Finland
6. Germany
7. Italy
8. Japan
9. Netherlands
10. Norway
11. Spain
12. Switzerland
13. United Kingdom
14. United States

CARBON FUND

PARTICIPANTS

1. Australia
2. BP
3. CDC Climat
4. European Commission
5. Germany
6. Norway
7. Switzerland
8. The Nature Conservancy
9. United Kingdom
10. United States

Carbon Fund Participation

- Declared operational on May 27, 2011
- Commitments to date = US\$ 184.1 million (subject to FOREX fluctuations)
 - Australia US\$ 12.7 million
 - BP US\$ 5.0 million
 - CDC Climat US\$ 5.0 million
 - EC US\$ 6.7 million
 - Germany US\$ 46.1 million
 - Norway US\$ 64.0 million
 - Switzerland US\$ 10.8 million
 - TNC US\$ 5.0 million
 - UK US\$ 18.7 million
 - US US\$ 10.0 million
- Total pledges to date = US\$ 28.6 million
- Total commitments and pledges = US\$ 212.7 million

Value Proposition (1)

1. High-Quality Emission Reductions

- > 10 years of carbon finance at the World Bank
- Emerging compliance regimes & existing voluntary schemes
- Corporate Social Responsibility
- Rigorous safeguards

2. Risk Mitigation

- ERs born from the readiness support process
- Portfolio diversification
- Partnership, with national authorities at the FCPF table
- Ownership of REDD Country governments

3. First-Mover Advantage

- First choice from a premium pipeline of programs
- Strategic insights into asset creation and opportunities for origination
- Possibility of parallel purchases

Value Proposition (2)

4. Carbon Finance Relevant to Core Business

- REDD+ will affect large land users
- Improve land-use practices in commodity production

5. Impact

- REDD+ offers substantial mitigation opportunities
- Shaping future frameworks for REDD+
- Leverage private capital to attract more public capital



2. Investment Strategy

Program Selection Criteria (1)

- Support about 5 Programs that
 - Are undertaken by FCPF REDD Country Participants that have made progress towards REDD+ Readiness (supported by the Readiness Fund)
 - Generate high-quality and sustainable ERs (including environmental and social benefits, and minimize the risk of non-permanence)
 - Are consistent with emerging compliance standards under the UNFCCC and other regimes
 - Are submitted by governments or government-approved entities
 - Are sufficiently diverse to generate learning value
 - Use clear benefit-sharing mechanisms so that the REDD+ incentives are used in an effective and equitable manner
 - Are based on transparent stakeholder consultations

Program Selection Criteria (2)

- Sub-national Programs to be included should be:
 - Undertaken at significant scale, e.g., at the level of an administrative jurisdiction within a country or at the national level
 - Consistent with the national REDD+ strategy
 - Undertaken in a country where an institutional framework to manage sub-national programs has been put in place
 - Approved by the national REDD committee or similar institution
 - Linked to and consistent with the national MRV system
 - Consistent with the national reference emission level, or with the national approach to establishing the reference emission level

Pipeline Development

Readiness Fund to feed into the Carbon Fund

Readiness Fund

Readiness Preparation

Progress
Report

R-Package

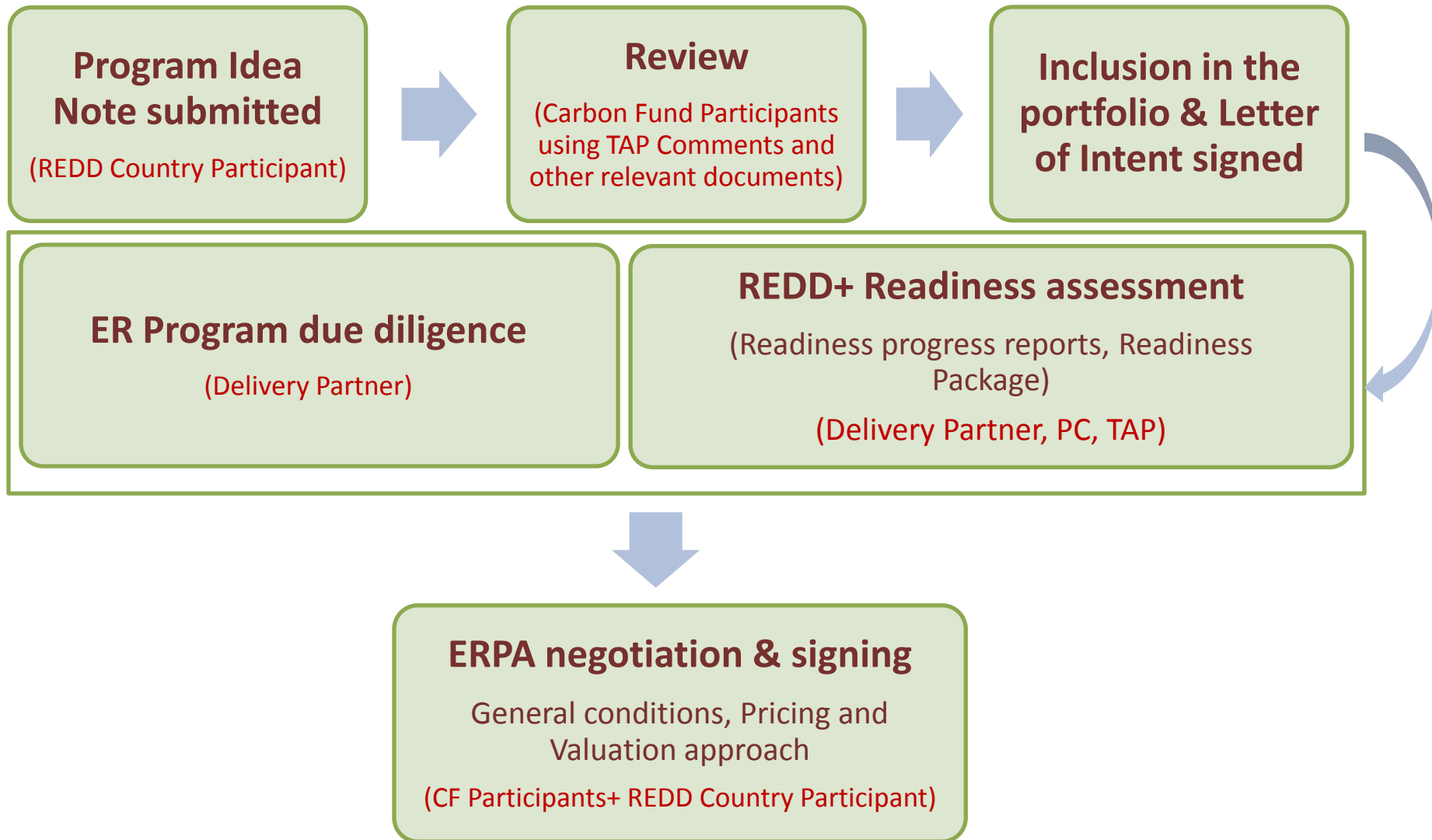
Idea Note

ERPA

Due Diligence

Carbon Fund

Business Process up to ERPA Signing



Methodological Approach

- Builds on UNFCCC principles (including IPCC GPG) and other relevant standards
- Standards-based to reflect evolving policy guidance and country-led proposals
- [To be updated]

Pricing and Valuation Approach

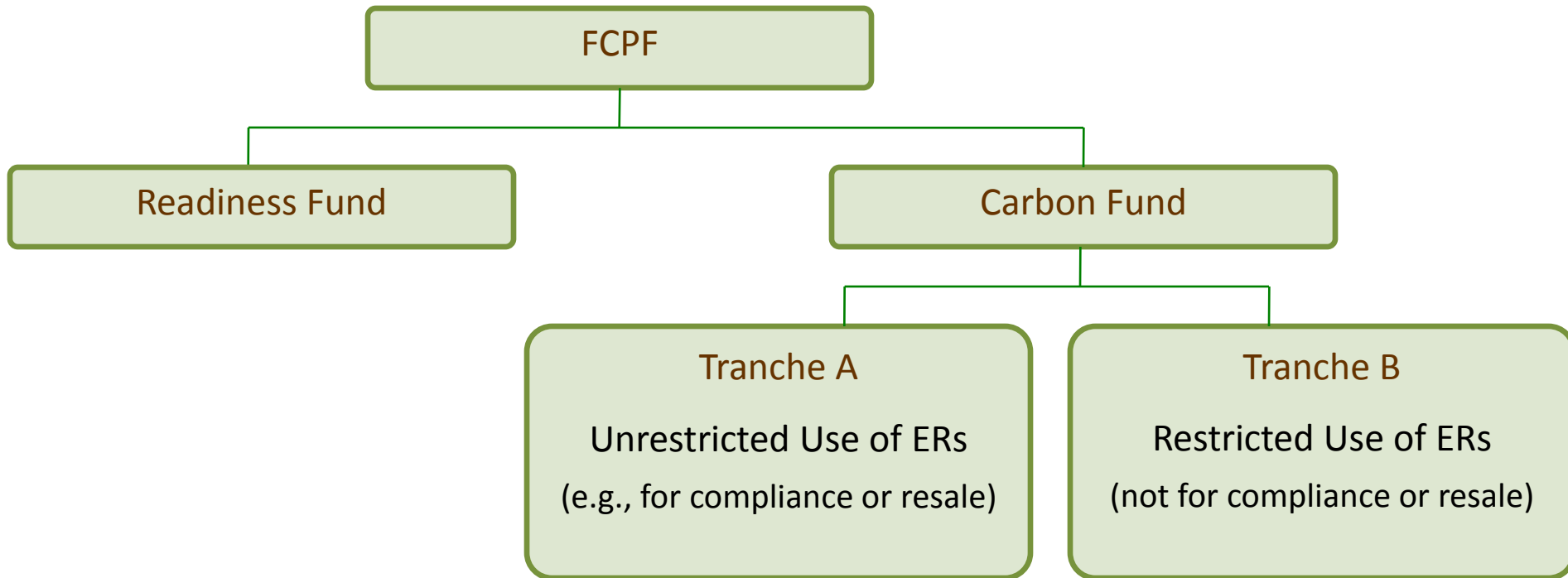
- Objectives
 - Protect respective interests and rights of the parties
 - Use transparent mechanisms reflecting risk allocation between parties and allowing for risk and benefit sharing
 - Reflect quality of ERs generated by each ER Program, including non-carbon values
 - Leave room for adjustments later to align with emerging guidelines under the UNFCCC and other regimes, as applicable, and as demand and supply for ERs from REDD+ activities evolve.
- Flexible pricing & valuation options
 - Fixed price or combination of a fixed portion and a variable portion
 - Use of transaction benchmarks / market quotations / Auctions?
 - Adjustment for quality?
- [To be updated]



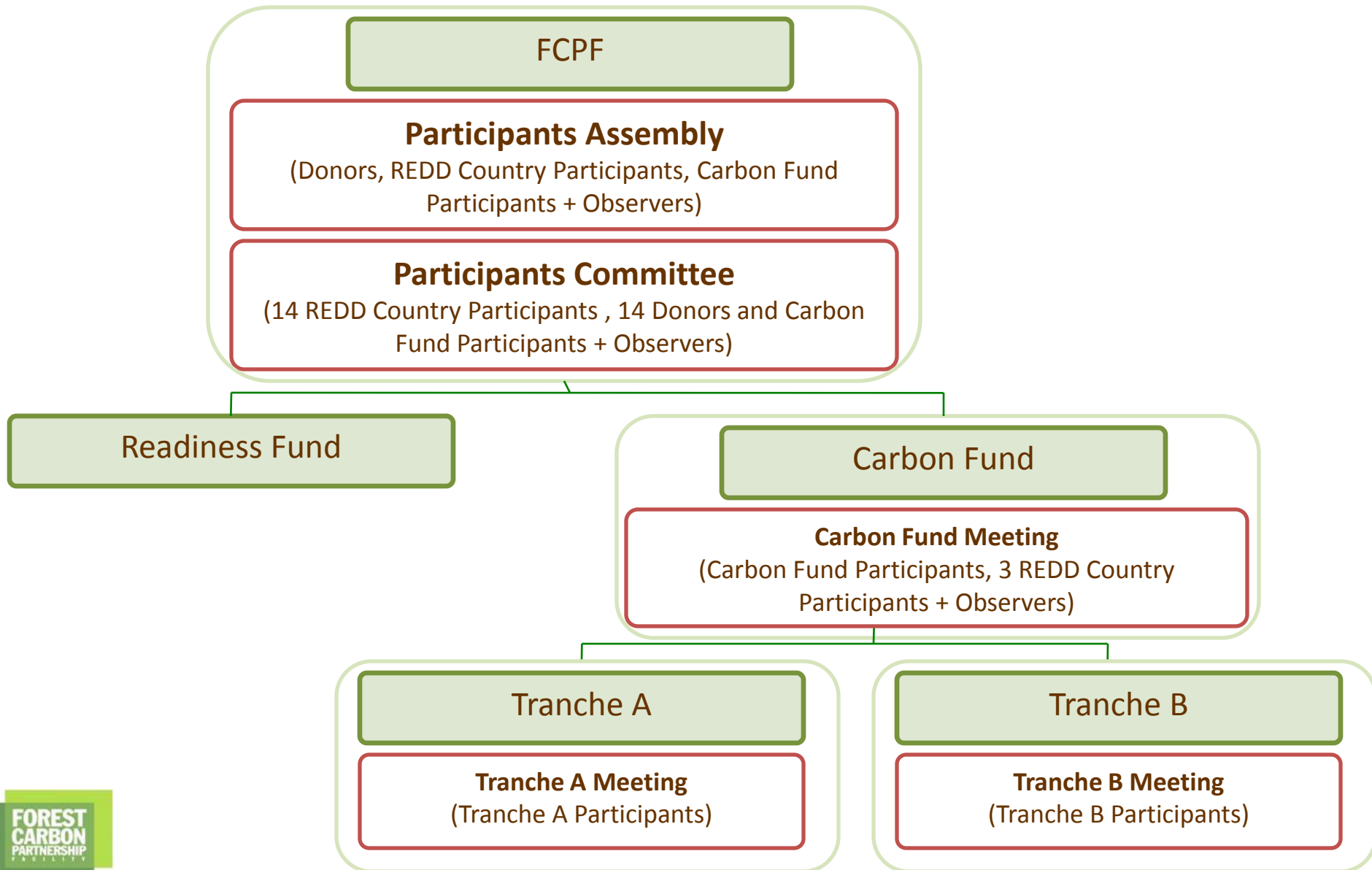
3. Governance

Organization in Two Tranches

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



Decision-Making Bodies (1)



Decision-Making Bodies (2)

Participants Assembly

- Forum for knowledge sharing
- Guidance to the Participants Committee

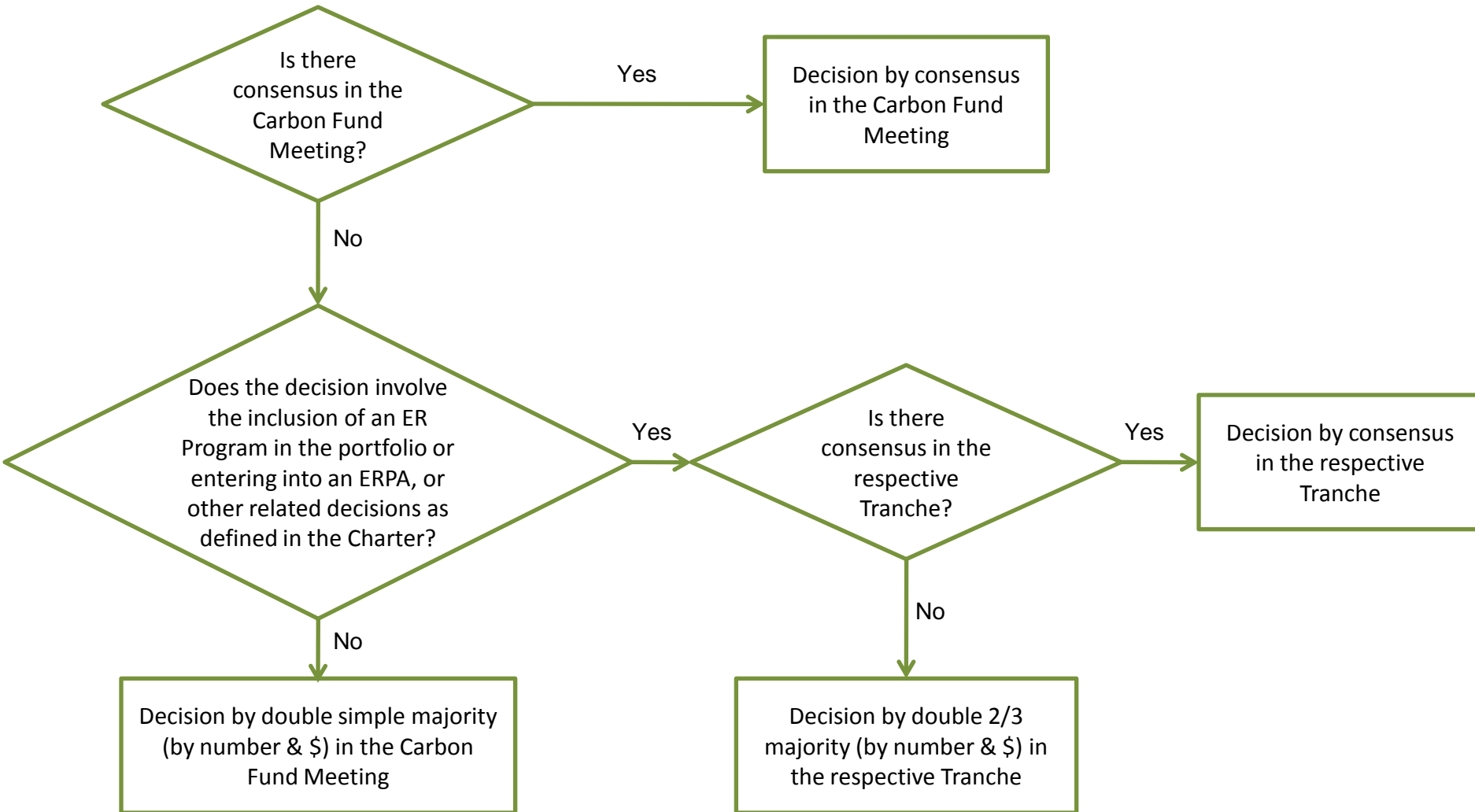
Participants Committee

- Readiness Fund related decisions (country selection, evaluation of REDD+ strategies, grant allocation, budget approval, assessment of readiness)
- Carbon Fund related decisions (guidance on pricing, methodological framework and additional benefits, ERPA General Conditions approval, budget approval on costs shared with the Readiness Fund)

Carbon Fund and Tranche Meetings

- All decisions on issues related to the Carbon Fund

Decision Tree of the Carbon Fund





4. The Team

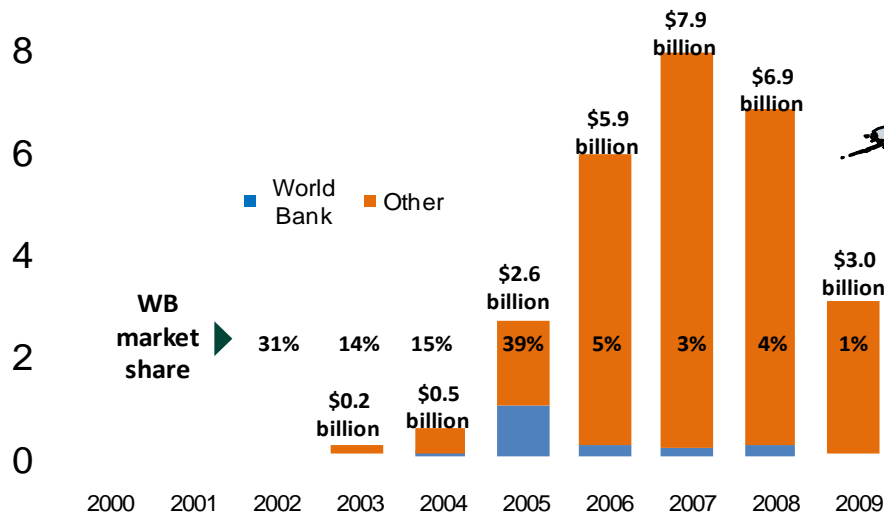
The World Bank as a Trustee for Carbon Funds

11 years of experience

Growing from an early trailblazer, the World Bank Carbon Finance Unit has built a mature portfolio while continuing to pioneer new products.

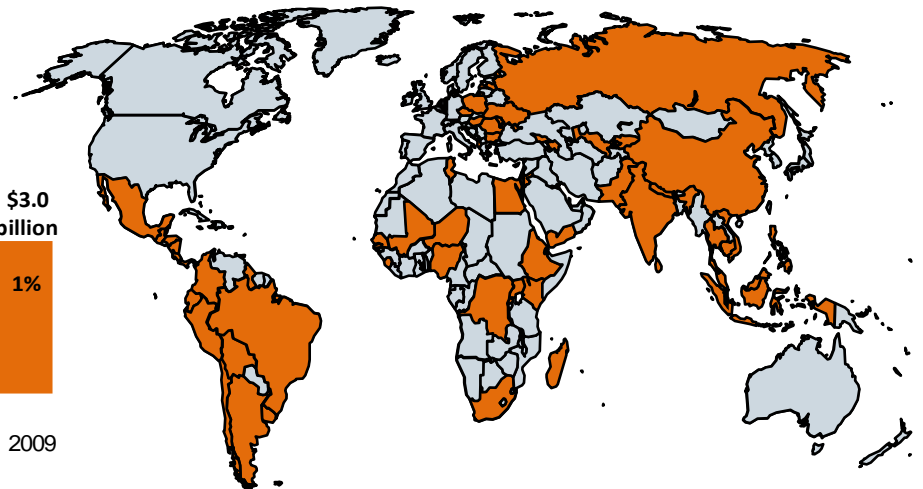
Growth of carbon funds

- ◆ “Crowding-in” of the private sector – the World Bank catalyzes markets and pioneers new products.
- ◆ The World Bank’s extended carbon finance family is large – 82 governments and private sector companies – together account for **28% of all CDM projects**.⁺



Global diverse experience

- ◆ The World Bank’s carbon funds are developing projects in 57 countries – for many their first carbon finance project.
- ◆ The World Bank is also a leader in forest carbon development and active in many cutting-edge CDM technology types and programs of activities.



 Country with active project

⁺Source: UNEP RISØ ^{**}Source: State and Trends of the Carbon Market, 2010; Up-to 2012 vintages only

The World Bank as a Trustee for Carbon Funds

Public-private partnerships to pioneer carbon markets

Public sector partners



Private sector partners



To be updated

The PCF Pioneering in uncertain environments

- Prototype Carbon Fund – *since 2000*
 - World's first Global Carbon Fund
 - 22 Participants, 58% of the capital from the private sector
 - Fund Capital \$220 million
 - # ERPAs signed 24
 - ERPA Value \$172 million
 - ERPA Volume 28 Mt CO₂e

The BioCF: Pushing for results in LULUCF

- BioCarbon Fund – *since 2004*
 - Afforestation and Reforestation as well as REDD+, Soil Carbon (tCERs and VERs)
 - 21 Participants, 48% of the capital from the private sector
 - Fund Capital : \$90.4 million, in two Tranches
 - # ERPAs signed 22
 - ERPA Value \$30 million
 - ERPA Volume 7 Mt CO₂e

The Facility Management Team

A core dedicated team with the support of World Bank teams

The World Bank

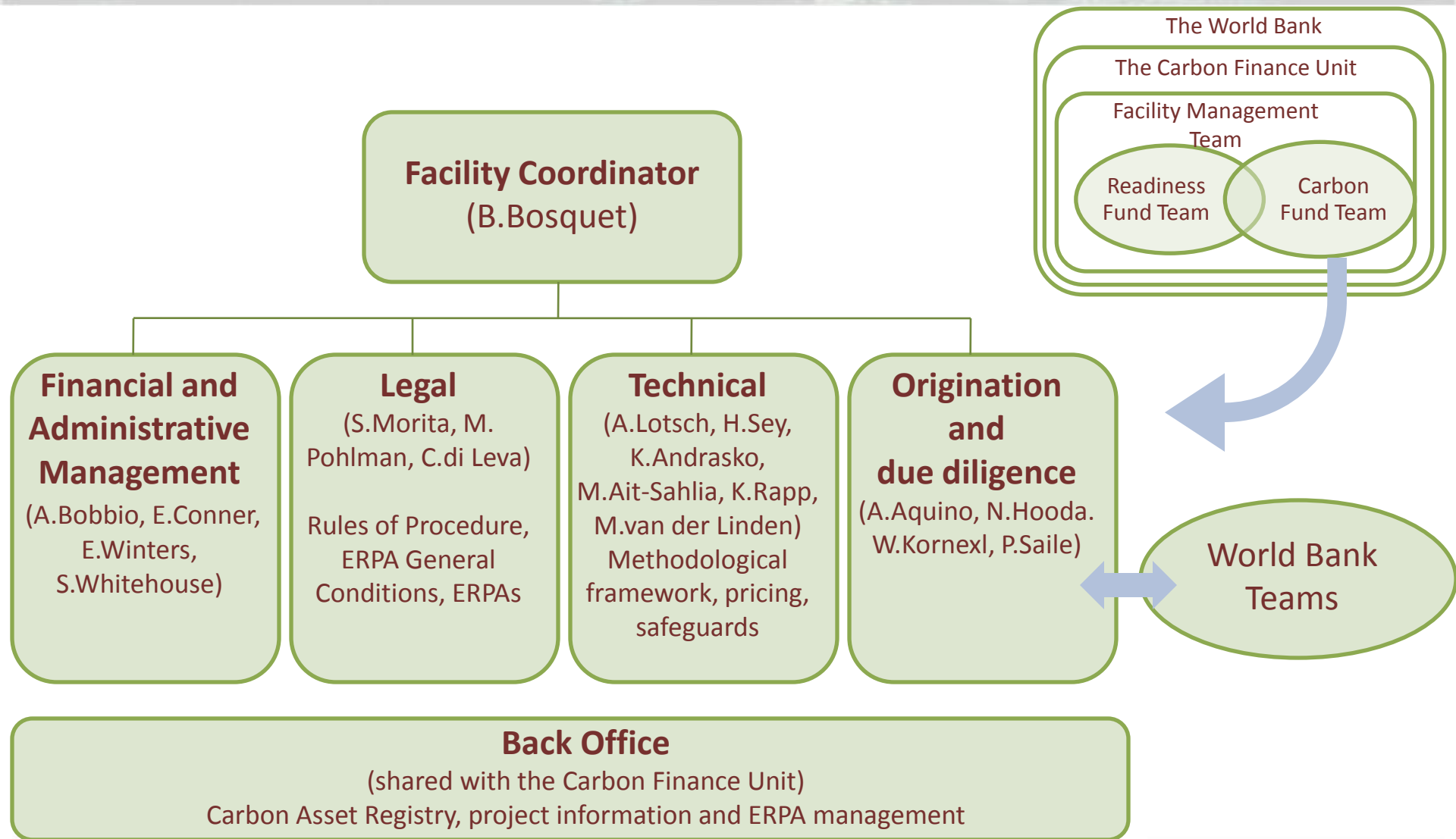
The Carbon Finance Unit

Facility Management Team

Readiness
Fund Team

Carbon Fund
Team

The Facility Management Team





5. Financial Information

Proposed terms for Participants

- Minimum amount US\$5 million (⇒ eligible for election to PC)
- Currency USD or other currencies
- Drawdown Upfront or stream
- Assets REDD+ ERs
- First closing June 2012 ⇒ Catch-up fee
- Investment period 3 years from first closing
- Fund life Up to 2020

Assumptions

- Fund size

- US\$200 million

- ERPA

- 5 ERPAs of equal scale
- First ERPA signed in 2012
- 10% upfront payment in the year of signing
- ERPA Term: 3 years

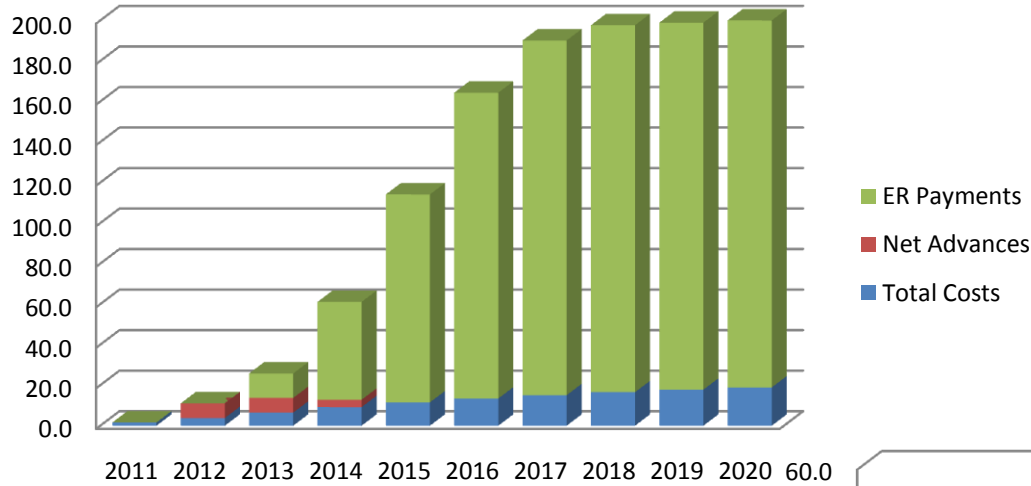
- Costs

- *Fixed component* : Carbon Fund Administration and Shared Costs with the Readiness Fund (capped)
- *Variable component*: Varies with the number of ER Programs
 - *Preparation costs* (carbon asset and program due diligence, ERPA preparation,...)
 - *Supervision costs* (safeguards, implementation)
 - *Verification costs*
- *Total costs estimated at USDx million, representing x% of a USD200 million fund (for illustration purposes only)*

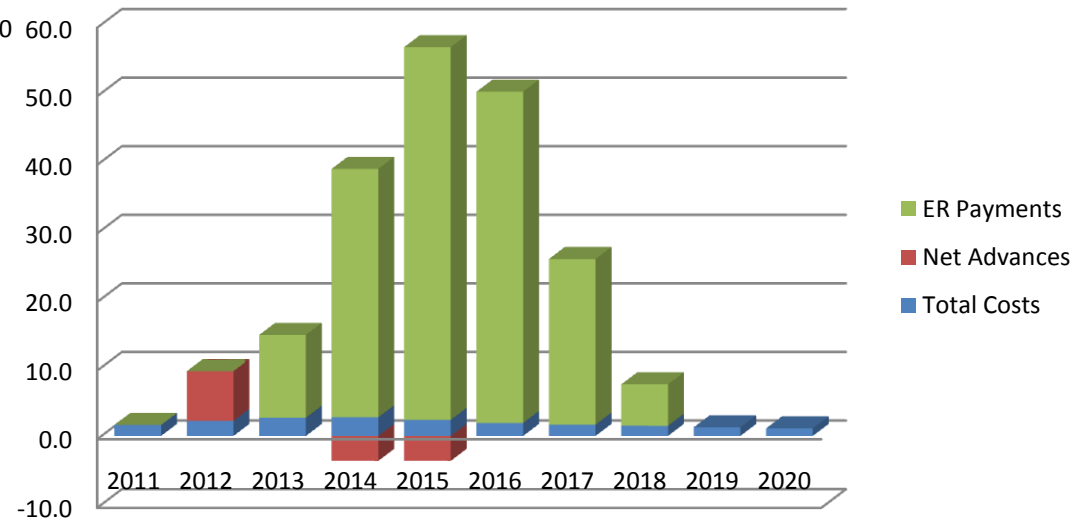
It is the responsibility of the Carbon Fund Participant to determine its opportunity cost

Financial projections: Uses of Funds

Uses of Funds
(\$million, cumulated values)



Uses of Funds
(\$ million annual values)



Note: Figures are for illustration purposes only

Financial Projections: Return to Participants

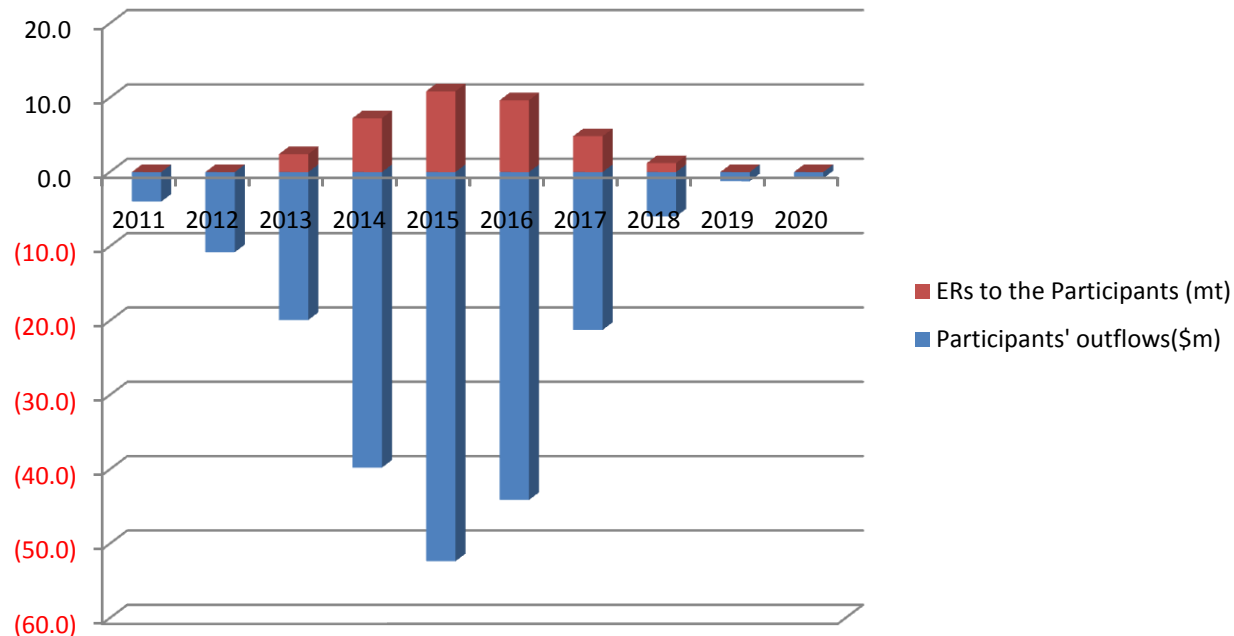
- Total ER volume of approx 34Mt if ER price paid is US\$5/t
- Up to each Participant to value its return based on its strategy (holding or selling ERs) and its opportunity cost

- If ERs are sold by participant, at delivery, at US\$6/t:

IRR= 19.5%

Note: Figures are for illustration purposes only

Return on investment



Financial Projections: Sensitivity Analysis

	Total ERs delivered to the Participants (Mt) (Price paid is 5\$/t)	IRR (If ERs sold at delivery at 6\$/t)
Base case	36.2	19.50%
Costs increase +20% on fixed costs +50% on variable costs	35.2	13.40%
Increased Advance payments 25% instead of 10%	36.2	14.50%
Upfront Drawdown	36.2	2%

Note: Figures are for illustration purposes only



6. Risks and Mitigation

Major Elements of Risk Mitigation

- **Selectivity for High-Quality Emission Reductions**
 - Emerging compliance regimes & existing voluntary schemes
 - Rigorous safeguards
- **Portfolio diversification**
 - Types of REDD+ activities and regional distribution
- **Ownership and commitment**
 - ERs born from the readiness support process
 - Ownership of REDD Country governments
- **Experienced team**
 - > 10 years of carbon finance at the World Bank
 - Pioneering in an environment of uncertainties
 - REDD+ specific expertise

Financial Risks

Financial risk to the Program (sources of funding)

- Other initiatives to cover investment capital needs, including government budget, private sector, donor funding,...

Financial risk to the Carbon Fund Participants (advance payments)

- Forward contracts with limited upfront payment to be agreed by Carbon Fund Participants
- Payment mostly on delivery

Regulatory Risk

Uncertainty on the procedures, principles and standards for REDD+

- The regulatory framework of submitting REDD Country Participants will be well known (Readiness documents)
- Consistency with emerging compliance standards under the UNFCCC and other regimes is a criteria for program selection

Delivery Risks

Performance

- Selection of programs with good institutional and legal frameworks, sound governance rules and capacity to deliver on REDD+ specific management and reporting functions
- Application of conservative estimates of the ER potential

Political

- Increased ownership and accountability as selected REDD+ programs will be embedded in the Readiness process and endorsed by the national authority

Other Risks

Social

- ER Programs should seek to strengthen rights and livelihoods of indigenous people and local communities
- World Bank social safeguards
- Consultation and inclusion of IPs and local communities will be part of the REDD+ program design and implementation

Displacement, Reversals

- Identification of drivers of deforestation and forest degradation
- Establishment of reserves (buffer accounts)
- Selection of programs where there is a high level of ownership, good governance, sound legal framework and capacity and commitment to enforcement of law



7. Next Steps

Next steps: 1-Year Goals

- Fund raising
 - Participation Agreements signed with at least 2 additional private Participants
- Pipeline development
 - Letters of Intent signed for 1 to 3 Programs
- Rules and Framework
 - First draft of Readiness Package guidelines and Readiness Package assessment process adopted
 - Policy guidance on Valuation/Pricing Approach agreed
 - Methodological Framework agreed
 - General ERPA Conditions agreed

Next steps: 3-Year Goals

- **Fund raising**
 - Proposed target capitalization of US\$350 million reached
- **Pipeline**
 - At least 3 ERPAs signed (representing approximately 60% of the available capital from the initial capital target of US\$200 million)
- **Framework**
 - FCPF Framework (i.e., Methodological Framework, Valuation/Pricing Approach, etc.) reviewed and revised as necessary
- **Lessons Learned**
 - Lessons learned in the first 3 years of fund operations captured and disseminated



8. Restatement of Value Proposition

Value Proposition (1)

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For further information

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Visit

www.forestcarbonpartnership.org

Read

FCPF Carbon Fund Issues Note

http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Dec2010/FCPF_Carbon_Fund_Issues_Note_12-22-10.pdf



Thank You