



Forest Carbon Partnership Facility

Carbon Fund

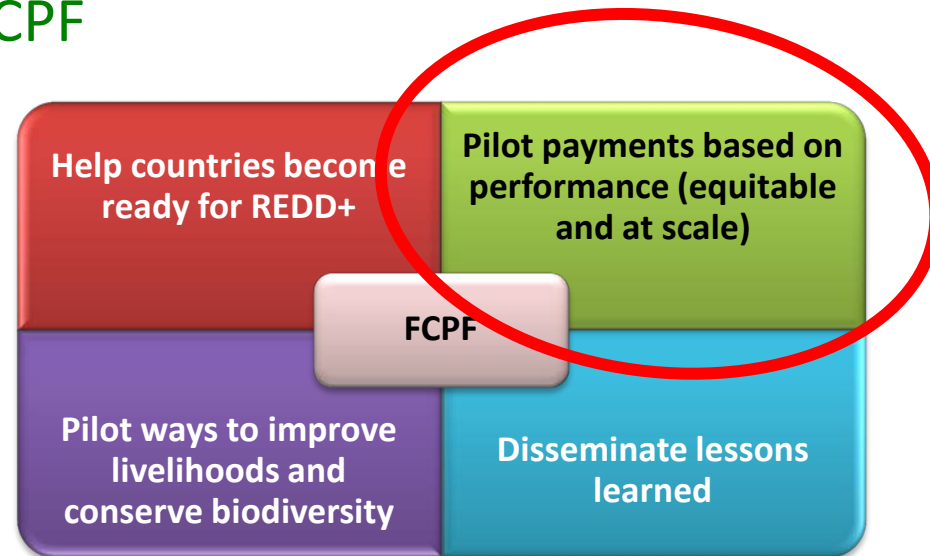
Indigenous Peoples Global Dialogue with the FCPF

Doha, Qatar

December 9-11, 2012

Introduction

- The Carbon Fund is integral part of the FCPF's Charter and at the heart of the FCPF



- Became operational in May 2011
- Methodological work is ongoing
 - Estimate of emission reduction potential of programs
 - Pricing

Objectives (1)

- **Mandate**

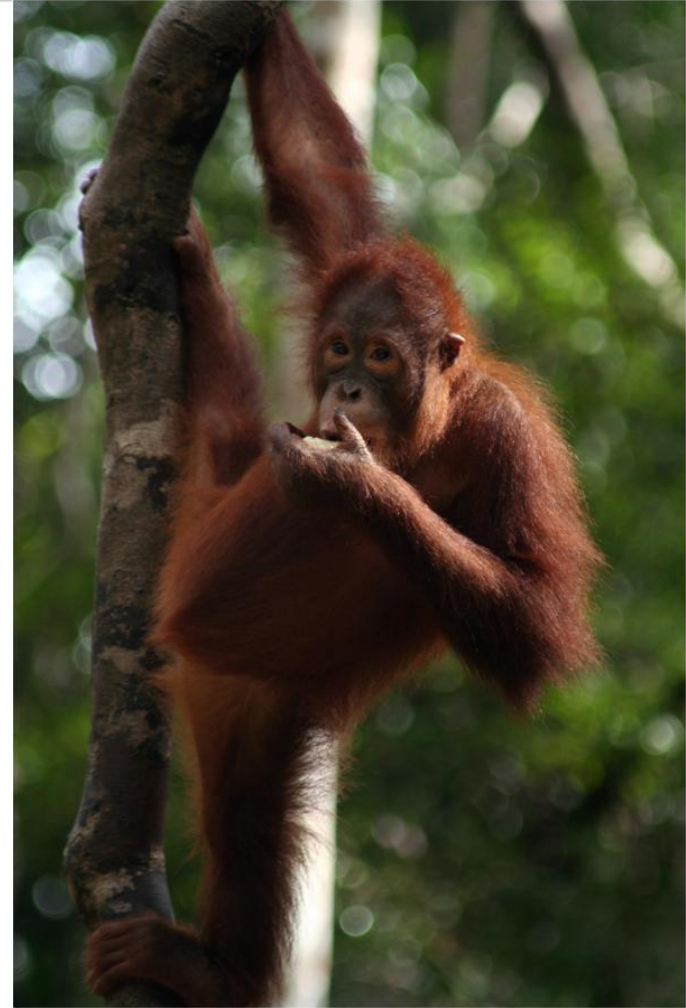
- Pay for Emission Reductions (ERs) from REDD+ programs and deliver them to the Carbon Fund (Tranche) Participants
- Not purchase or lay claims to land or territories, only ERs

- **Objectives**

- Deliver ERs generated by ~5 REDD+ programs that
 - Are submitted by governments or entities with government approval
 - 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
 - Are consistent with national REDD+ strategy and emerging MRV system and REL
 - Are based on transparent stakeholder consultations
 - Generate environmental and social co-benefits (safeguards, biodiversity)

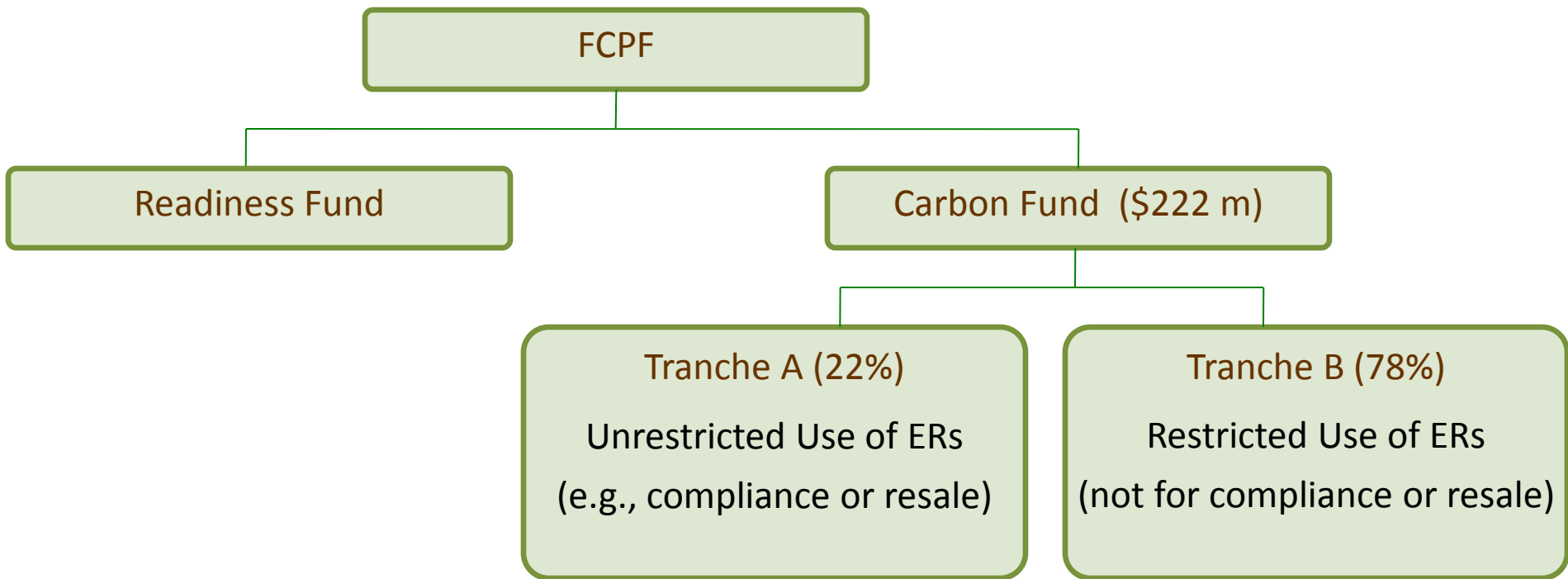
Objectives (2)

- The Carbon Fund is NOT the carbon market for REDD+
- Performance-based payments \neq market
 - Neither World Bank nor FCPF has authority to create a carbon market for REDD+
 - Carbon markets for REDD+ may be created in the future by
 - UNFCCC
 - Countries
 - Sub-national entities
 - Groups of countries
 - Performance-based payments will be used regarding of the source of the money or the use of the emission reductions



Carbon Fund Organization in Two Tranches

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



Projects or Programs?

- Most early stage REDD+ transactions rely on a “project approach” which has a number of operational advantages:
 - Normally only few landowners or one concessionaire
 - VCS methodology ready to use
 - Typically a contract between private entities
 - Ring-fenced approach, concentrating on specific drivers only
- Carbon Fund focus on a large scale, e.g., administrative jurisdictions (national or sub-national) is an innovative approach and needs demonstration
 - Mix of policies and investments
 - Focus on national or sub-national development strategies
 - Innovative financial structures and arrangements are needed
 - Multi-stakeholder, multi-tenure, programmatic approach
 - Accounting in the context of national REDD+ strategy

Pipeline Development (1)

- **Criteria for inclusion in pipeline:**

1. **Progress towards Readiness:** The Emission Reductions Program (ER Program) must be located in a REDD Country Participant that has signed a Readiness Preparation grant agreement (or the equivalent) with a Delivery Partner under the Readiness Fund, and that has prepared a reasonable and credible timeline to submit a Readiness Package to the Participants Committee.
2. **Political commitment:** The REDD Country Participant demonstrates a high-level and cross-sectoral political commitment to the ER Program, and to implementing REDD+.
3. **Methodological Framework:** The ER Program must be consistent with the emerging Methodological Framework, including the PC's guiding principles on the methodological framework.
4. **Scale:** The ER Program will be implemented either at the national level or at a significant sub-national scale, and generate a large volume of Emission Reductions.
5. **Technical soundness:** All the sections of the ER-PIN template are adequately addressed.
6. **Non-carbon benefits:** The ER Program will generate substantial non-carbon benefits.
7. **Diversity and learning value:** The ER Program contains innovative features, such that its inclusion in the portfolio would add diversity and generate learning value for the Carbon Fund.

Pipeline Development (2)

- Costa Rica Emission Reductions Program Idea Note under review ([see link](#))
- Other early Program Ideas
 - DRC, Ghana, Indonesia, Mexico, Nepal, Vietnam

Methodological Framework (Ongoing Discussions)

- Elements adopted in June 2012 ([see link](#))
 1. Endorsement and national REDD+ Strategy
 2. Consistency with UNFCCC
 3. Safeguards
 4. Stakeholder participation
 5. Benefit sharing
 6. Scale (or ambition)
 7. Sustainable development (or non-carbon values)
- FMT + Technical Advisory Panel + Design Forum + Working Group developing details

Pricing Guidance (Ongoing Discussions)



1. Pricing should be fair and flexible, be kept as simple as possible and protect both parties from extreme price fluctuations
2. Prices should be a combination of fixed and floating portions, where feasible. The respective shares of the fixed and floating portion may vary across ERPAs
3. Prices should result from negotiations between the CF Participants and the ER Program sponsor, based on their respective willingness to pay or receive payment. Negotiations should be informed by relevant information such as market surveys or transaction benchmarks
4. Negotiations offer an opportunity for non-carbon benefits to be taken into consideration, although there would be no systematic evaluation of non-carbon values under the Carbon Fund

Legal Framework

- Term Sheet drafted for future general conditions and commercial terms for future contracts (ERPAs) to be adopted in March 2013 ([see link](#))
- Letter of Intent drafted ([see link](#))

Benefits in Carbon Fund Transactions (1)

Principle terms of future purchase and sale agreements for Carbon Fund operations include:

- Design and implementation of FCPF Carbon Fund operations is based on **effective stakeholder participation**
- **Benefit-sharing plan is a condition of effectiveness** for contracts
- Seller will **share significant part of monetary or other benefits** achieved with stakeholders
- **ER Programs are expected to produce non-carbon benefits**, e.g., improvement of local livelihoods, building of transparent and effective forest governance structures, making progress on securing land tenure and enhancing/maintaining biodiversity and/or other ecosystem services
- **Non-carbon benefits ought to be monitored**

Benefits in for Carbon Fund Transactions (2)

Principle terms of future purchase and sale agreements for Carbon Fund operations include – continued:

- FCPF Carbon Fund operations **meet World Bank social and environmental safeguards** and support safeguards as per UNFCCC guidance
- **Pricing should be fair, flexible, and as simple as possible** to protect parties from extreme price fluctuations
- Price negotiations offer an **opportunity to take into consideration non-carbon benefits**



Gracias

Merci

Thank you

www.forestcarbonpartnership.org