



# Forest Carbon Partnership Facility

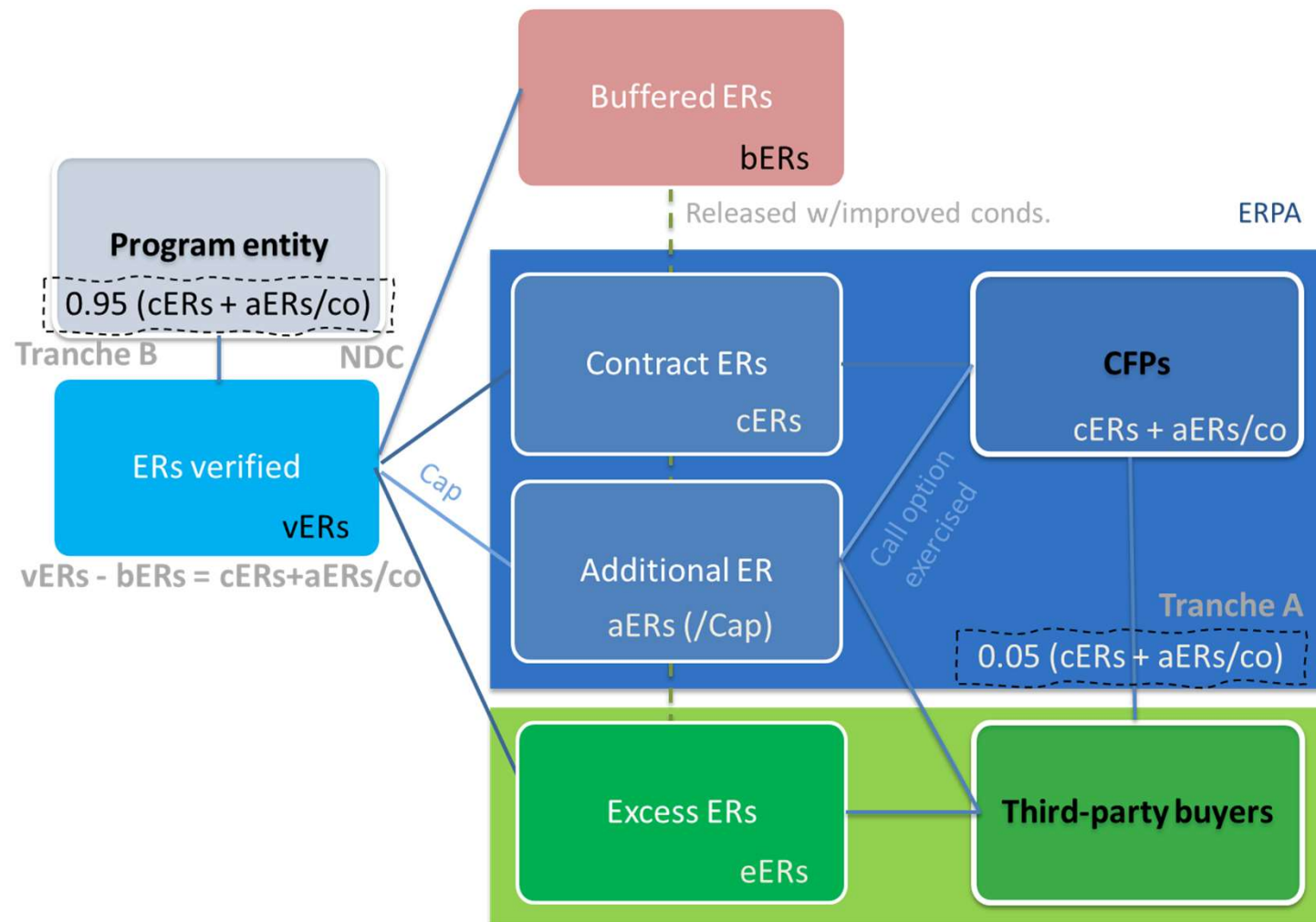
## 3c. Excess ERs and Third-Party Buyers

**26<sup>th</sup> Carbon Fund Meeting (CF26)**

**May 31, 2023**

# Excess ERs and Third-party transfers

**Excess ERs** refers to those ERs generated in a Reporting Period in excess of the ERs to be paid for by the FCPF Carbon Fund under the ERPAs, namely the **Contract ERs** and **Additional ERs** (for which a Call Option has been exercised).



# Initiatives to facilitate Third-party transfers

- Excess ERs available for countries to transact with third-party buyers available for **Mozambique**, and expected to be available for **Indonesia** and **Vietnam**
- With the approval of FCPF as **CORSIA-eligible program**, market's appetite for Excess ERs expected to increase
- The FMT has been working on several fronts to facilitate these transactions by countries:
  - A. CATS 2.0:** Upgrades to create additional functionalities, including those required to meet CORSIA requirements (See slides on CORSIA)
  - B. Verra Registry:** Work to enable the use of the Verra registry for transactions of FCPF-labelled Excess ERs with third-parties
  - C. Auction mechanism:** Engagement with auction provider to pilot auction of Mozambique's Excess ERs
  - D. Country workshops:** in Mozambique, Lao, Vietnam and Indonesia to support host-country capacity to access to Climate and Carbon Finance and socialize with countries options to commercialize their Excess ERs

## A. CATS 2.0

- CATS is in the process of being upgraded (CATS 2.0) to include additional required functionalities to meet new market requirements including:
  - **Public dashboard and Reporting Tools** to respond to the new accounting and market framework required under the PA & CORSIA (pilot/1<sup>st</sup> phase (\* June 2023))
  - **Double claiming procedures** to address risk of double claiming, including CAs as required (e.g.) by CORSIA (1<sup>st</sup> phase) (\* Sept. 2023)
  - **CATS for third-party transactions:** Reassessment of the risks of enabling third-party transactions in CATS, including assessment of risk mitigation measures (completed; 'go/no-go' decision as part of CATS 2.0)
  - **Digital MRV:** Incorporation of a MRV data integration interface to generate a simple geodatabase with basic information by GHG category.
  - **Communication with other third-party and national registries** to connect to the Climate Action Data Trust (meta registry) (initiated) and Tokenization Engine (risk assessment completed; 'go/no-go' decision as part of CATS 2.0)
  - **Host-country support and capacity building** on transaction registries.

## B. Verra registry

- Lack of transaction registry with third-parties → main barrier to commercialize Excess ERs
- **Verra registry will be used for transactions of FCPF ERCs with third-party buyers, including transactions from Tranche A participants**
- Positive feedback on this option received from auction providers and prospective third-party buyers
- FCPF ERCs will be initially issued under CATS, and will then be retired prior to be re-issued under the Verra registry
- The 'Cooperation Agreement' between World Bank and Verra, drafted with the support of a legal firm, is almost finalized and will be **signed by June 2023**
- The FMT is working in the analysis of other alternatives (CATS 2.0, tokenization, other registry service providers,...)



## C. Auction mechanism

- The FMT has been working with an auction provider to pilot an auction with Mozambique's Excess ERs
- Auction provider and Government of Mozambique have developed a **draft contract** for the auction, facilitated by the FMT
- Contract will be finalized once the 'Cooperation Agreement' between the WB and Verra is in place (**June 2023**)
- Once the contract is finalized, it will take approx. 2 months before the auction is launched (August 2023)
- Timeline will depend on whether on market conditions; expected to improve towards year-end.

## D. Country Workshops

The FMT (SCCFM), in collaboration with WB Country Offices, ENB, and the Climate Finance and Economics (SCCFE) unit (CCG), delivered a series of country workshops to support host-country capacity to access to Climate and Carbon Finance, and to commercialize excess ERs.

Clarifications on the WB support to the countries:

- The decision on what to do with the 'Excess ERs' is the prerogative of the Govs.
- The World Bank will not be directly involved in any sale and purchase of such Excess ERs, since they are not covered by the ERPAs.
- **The World Bank can provide information and advice to the Govs. on options to use those Excess ER units.**

## D. Country Workshops

Mozambique,  
December 14<sup>th</sup>,  
2022

- **Carbon markets session as part of FCPF South-South Knowledge Exchange Nepal – Mozambique** (FNDS, BMM – Bolsa de Mercadorias, Sylvera, Terra Global Capital, REDD-IC, FRTC)
- Discussions between auction provider (CME) and Government of Mozambique

LAO PDR,  
February 21<sup>st</sup>,  
2023

- First of a **series of WB workshops in col. with UN** (UNEP, FAO RCO), GoL (MAF, MONRE, MoF, MPI, MEM, MOIC, MPWT, MOFA) on Climate and Carbon Finance
- Focus on fundamentals of Climate Finance, carbon pricing instruments, voluntary and compliance carbon markets, Article 6, crediting approaches, requirements on MRV systems, validation and verification processes, safeguards, social inclusion/BSPs, registries, and regulatory framework



## D. Country Workshops

Vietnam,  
Feb 27<sup>th</sup> - March  
1<sup>st</sup>, 2023

- **'Results-based Carbon and Climate Finance'**, co-organized with WB Country Office, TCAF and SCALE teams
- Focus on Results-based Climate and Carbon Finance, targeting multiple sectors including forest, agriculture, infrastructures
- Ministry of Finance, Ministry of Planning and Investment, Ministry of Natural Resources and Environment, Ministry of Agriculture and Rural Development, Ministry of Industry and Trade, Ministry of Construction, Ministry of Transport, Vietnam Electricity (EVN), provincial/municipal governments

Vietnam,  
March 3<sup>rd</sup>, 2023

- **'Additional and Excess ERs Workshop'** (FMT & LEGEN), GoV (MARD)
- Overview of Call Options paper, Excess ERs and Third-party Transactions, different types of market transactions, auction providers, transaction registries

## D. Country Workshops

Indonesia,  
March 6<sup>th</sup>-7<sup>th</sup>,  
2023

- **'Unlocking Indonesia's Carbon Financing Potential: Opportunities and Challenges for accessing Carbon Markets and Results-Based Finance'**, Gol (Jambi, East Kalimantan, Aceh, Central Kalimantan, North Kalimantan, CMMAI, MoEF, KLN, IEF, MMAF, MAg, MoF, MoHA, MOFA)
- Role of the carbon market and results-based finance (RBF) in addressing Indonesia's climate financing needs, Climate finance instruments and technical foundations for high quality, high integrity programs, Sectoral sessions: forestry (including mangroves), agriculture, blue carbon

Indonesia,  
March 10<sup>th</sup>, 2023  
East Kalimantan

- **'Additional and Excess ERs Workshop'** (FMT & LEGEN), GoEK
- Overview of Call Options paper, Excess ERs and Third-party Transactions, different types of market transactions, auction providers, transaction registries

Washington DC,  
May 9<sup>th</sup> -10<sup>th</sup>,  
2023

- East Kalimantan Gov. , following-up conversations on call options, auctions, registries, third-party buyers

## D. Country Workshops

- Support requested on the **building blocks** to access to the carbon markets:
  - **MRV** design and implementation in other sectors than REDD+ (low carbon agriculture, blue carbon) and d-MRV (reducing time and costs) - (SCCFM - SCALE + Additional support)
  - **Safeguards & non-carbon benefits monitoring and reporting systems and BSP implementation** (as part of the supply side high integrity ERs) - (SCCFM – ENABLE – SCALE + Additional support)
  - **Design of the legal and institutional frameworks sectoral/multisectoral** (carbon finance mechanisms, emission/removals ownership, institutional mandates (e.g., for MRV, registration, Art6, transactions) - (SCCFM - SCALE - LEGEN + Additional support)
  - **Registries** (including regulatory framework, institutional arrangements, nesting approaches) (SCCFM - SCALE - LEGEN + Additional support)

## D. Country Workshops

- Technical and legal advice on **carbon pricing instruments** (carbon taxes, cap&trade, crediting mechanisms) - SCCFE (climate finance and economics) + Additional support
- Technical and legal advice on **crediting approaches**; project, program, policy, sectoral/jurisdictional, review of independent standards methodologies, design of national standards methodologies by sectors, validation and verification processes, registration, issuances, transactions - SCCFM - SCCFE - LEGEN + Additional support
- Technical and legal advice on **trading mechanisms for excess ERs** (access to private sector, brokers, auction intermediaries, contracts) - SCCFM - SCCFE - LEGEN - IFC (limitations) + Additional support
- **FCPF branding initiatives**, FCPF CF beyond 2025 - FCPF 2.0 - SCCFM



# **CORSIA and ICROA**

# CORSIA approval of FCPF

- CORSIA confirmed on December 7 the approval of the Forest Carbon Partnership Facility (FCPF) to supply CORSIA eligible emissions units for its 2021-2023 compliance period (pilot)
- The FMT submitted a letter with the acceptance of the “terms of eligibility” and this has been acknowledged by CORSIA
- Eligibility
  - **Timeframe** → 2021 – 2023 compliance cycle
  - **Unit dates** → between the first crediting period through 31 December 2020
  - **Scope** → Emission Reduction (ERs) generated under REDD+ ER programs associated with FCPF that have an FCPF-equivalent reversal management mechanism through at least 31 December 2037
- Not conditional to this approval, FCPF is requested to address some additional actions (see next slide)



# CORSIA and ICROA - Actions and next steps

- **CORSIA -Actions needed**

**CATS**

- Finalize the public-facing elements of CATS (June 30<sup>th</sup>, 2023)
- Finalize CORSIA eligibility labelling procedures (June 30<sup>th</sup>, 2023)
- Updated Emissions Unit Programme Registry Attestation → (already submitted)

**Eligibility extension**

- **Timeframe** → Application in Q1 2023 for 2024-2026 compliance period (First Phase) (already submitted)
- **Unit dates** → Finalize procedures for host country attestation and double-claiming procedures for post-2020 (Sept 30<sup>th</sup>, 2023)

- **CORSIA - Next steps**

- Launch CATS 2.0 to address pending issues
- Prepare double-claiming procedures for post-2020 units

- **ICROA** → Building on CORSIA submission, FMT will submit application documentation to ICROA by June 30<sup>th</sup>, 2023