ICAO Global Aviation Partnerships on Emission Reductions (E-GAP)

Multiplying Environmental Action

An overview of the World Bank Group carbon finance facilities

WORLD BANK GROUP
Climate Change
Designing and implementing carbon pricing instruments is a growing trend at the sectoral, international, regional, national and sub-national level

<table>
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<tr>
<th>Form and scope of Carbon Pricing Instrument</th>
<th>Approximate demand from MBM</th>
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<tr>
<td><strong>Sectoral</strong></td>
<td>The use of international offsets is a clear part of the mix of policy options to meet sector target</td>
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| The emission reduction pledges that Parties submit to the UNFCCC will include sector-specific targets and action plans | • Potential demand increasing to 250 MtCO2 per year by 2030 and beyond  
• Total cumulative demand expected to be 13 to 20 GtCO2 between 2020-2050 in order to achieve Carbon Neutral Growth* |
| ICAO is expected to finalize, by 2016, a global Market Based Mechanism (MBM) to help the aviation sector achieve Carbon-Neutral Growth from 2020. | |
| **International**                          | The use of international offsets is a clear part of the mix of policy options available for these carbon pricing instruments. |
| Decisions about the form and scope of a new post-2020 agreement under the UNFCCC, are expected to be reached in December, 2015. | |
| **Regional, national, sub-national**       | |
| 62 jurisdictions are putting a price on carbon. In 2015, these carbon pricing instruments cover some 7 GtCO2 at a value of just under US$50 billion. | |

Source: World Bank Group (August 2015)  
ICAO & World Bank analysis. Estimated baseline is 700MtCO2 per year in 2020. Demand figures are for MBM only and account for technology & ATM improvements.
Estimated Future supply (2015 to 2020):
- Certified Emission Reductions (CERs) = 150MtCO2 per year *
- Voluntary offsets: 80 – 110MtCO2 per year *

* Expected yearly project based issuances on average over the 2015-2020 period

- The supply of offsets is decreasing due to a lack of robust and effective demand
- Early action is critical to signal demand and ensure enough credits are issued to meet the aviation sector needs

Source: UNFCCC for CDM data on issuances, Intercontinental Exchange ICE for CDM data on prices, Forest Trends’ Ecosystem Marketplace for data on voluntary offsets.
Options for Purchasing carbon offsets

When considering options for purchasing carbon offsets, the Aviation Industry’s short and long term strategy will involve a number of considerations, including:

- Resource commitment
- Cost
- Opportunity to advance internal understanding of carbon market
- Risks. e.g., regulatory risk, issuance risk and reputation risk
Carbon Funds have been the primary source of demand for carbon offsets to date and are particularly attractive for new carbon market entrants

Advantages of a carbon fund:

- Allows buyers to aggregate demand and reduce overhead and transaction costs
- Volumes of assets sought, and government participation in the funds in many cases, gives Carbon Funds significant market leverage and the ability to attract favorable commercial terms
- Cost-effective and low risk approach to meeting CO2 obligations for those firms that do not have the in-house expertise to establish their own carbon asset sourcing programs
- Opportunity to diversify current portfolios and manage risk
- Excellent opportunity to examine in detail trends, projects, compliance market mechanisms and other compliance schemes
The World Bank Group has $3.8 billion under management through 15 carbon funds and facilities which facilitate procurement at scale

**WBG Facilities**

- Prototype Carbon Fund
- Netherlands CDM Carbon Fund (NCDMF)
- IFC-Netherlands Carbon Facility (INCaF)
- Community Development Carbon Fund (CDCF)
- IFC-Netherlands European Carbon Facility (NECaF)
- Netherlands European Carbon Fund (NECF)
- BioCarbon Fund Tranches 1 & 2 (BioCF T1 and T2)
- Italian Carbon Fund (ICF)
- Danish Carbon Fund (DCF)
- Spanish Carbon Fund (SCF)
- Umbrella Carbon Facility Tranches 1 and 2 (UCF)
- Carbon Fund For Europe (CFE)
- IFC Post-2012 Carbon Facility (P12C)

**Lessons learned**

- Through life management of carbon funds is key, including: structuring, fund raising and administration
- Origination and valuation of carbon offsets in global carbon markets is critical
- Deep familiarity with the Kyoto Protocol and the mechanisms governing participation in CDM and Joint Implementation (JI) is an essential requirement
- Comprehensive understanding of the policy landscape is important, particularly related to the design and implementation of international, regional, sectoral, national, sub-national carbon pricing instruments
- Understanding the evolution of design features in other carbon markets is key

*Legal end of the Instrument. In these cases funds will close sooner as funds make final deliveries to Participants.
^ Cumulative resources not considering disbursements to date
# Capitalization not disclosed
The World Bank Group is also implementing carbon market facilities that innovate and pilot new carbon market instruments.

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<th>Objective</th>
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<td>Carbon Partnership Facility and TCAF</td>
<td>Pilot new carbon market mechanisms that have emerged from discussions of the post-2012 climate change agreement</td>
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<tr>
<td>Pilot Auction Facility</td>
<td>Pioneers the use of auctions for simple and efficient procurement of carbon assets that can be applied in many sectors and MBMs.</td>
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| Bio Carbon Fund & Forest Carbon Partnership Facility | Results-based finance for CO2 reductions at the landscape level  
Prepare developing forest countries for REDD+                                                   |
The World Bank Group also plays a leadership role in shaping future carbon markets and regulatory instruments

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<td><strong>Carbon Pricing Leadership Coalition</strong></td>
<td>Brings together leaders from government, business and civil society with the goal of putting in place effective carbon pricing policies worldwide.</td>
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<td><strong>Partnership for Market Readiness</strong></td>
<td>Provides grant funding and a platform to support countries to improve technical and institutional “readiness” for carbon pricing</td>
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<td><strong>Networked Carbon Markets initiative</strong></td>
<td>Enabling comparability among different climate mitigation actions, for a connected international carbon market</td>
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The World Bank has partnered with many public and private entities to develop Market Based Mechanisms.