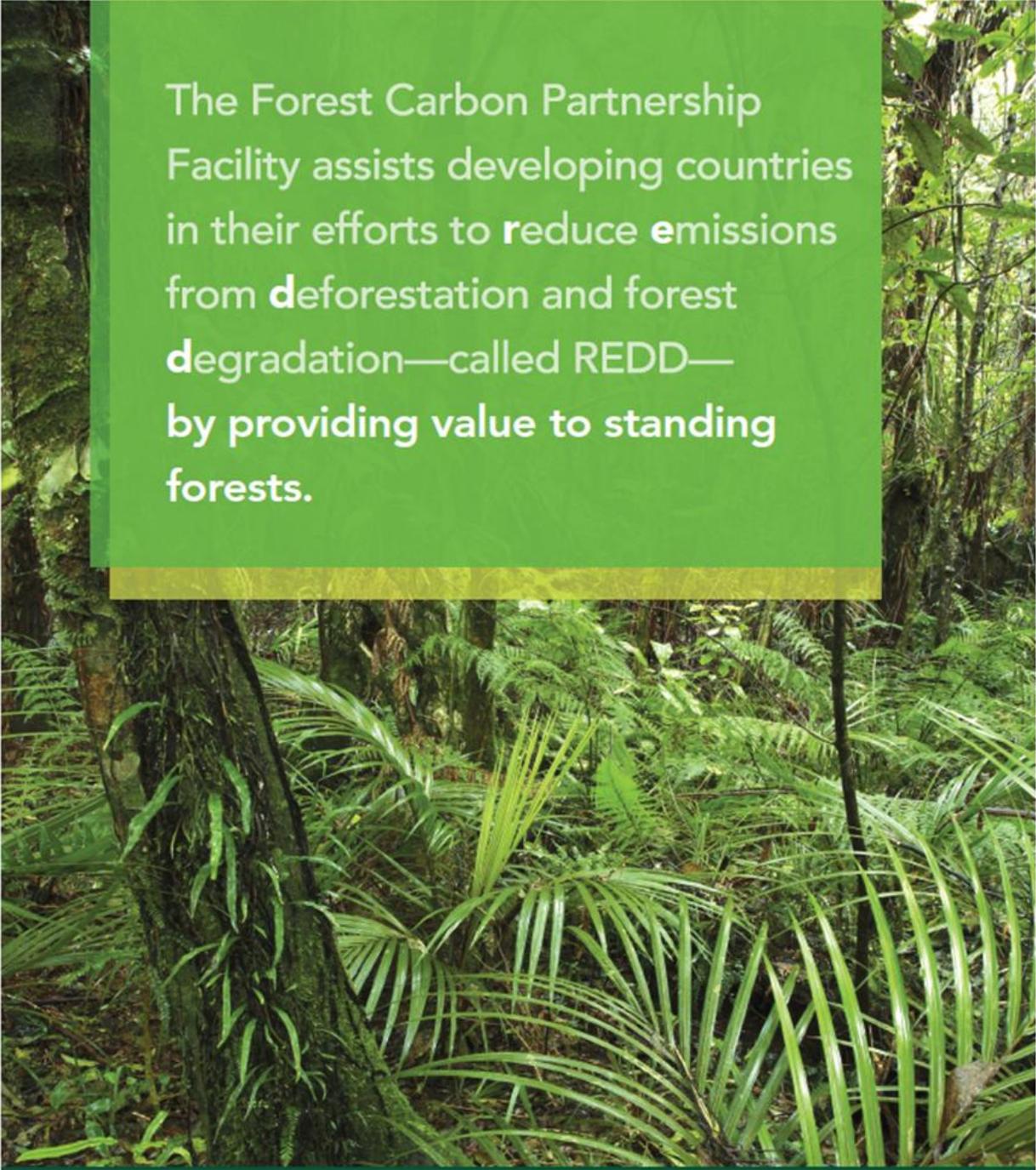
The background of the cover is a lush green forest scene. It features a dense canopy of trees in the upper half and a forest floor with various plants, including ferns and palm-like leaves, in the lower half. Two semi-transparent green rectangular overlays are present: a larger one in the upper-middle section containing the main title, and a smaller one at the bottom containing the subtitle. The text is white and bold, providing high contrast against the green background.

FOREST CARBON PARTNERSHIP F A C I L I T Y

FY2009 Annual Report

**Demonstrating activities that reduce emissions
from deforestation and forest degradation in
developing countries**

A photograph of a lush tropical forest with a green text overlay. The forest is dense with various types of trees and plants, including large tree trunks and many green ferns in the foreground. The text is centered in a green box with a white border.

The Forest Carbon Partnership Facility assists developing countries in their efforts to **reduce emissions from deforestation and forest degradation—called REDD—** by **providing value to standing forests.**

Note from the FCPF Chair

As trustee of the FCPF, the World Bank is very pleased that the Forest Carbon Partnership Facility has generated considerable interest, with 37 REDD countries now participating in the partnership.

I wish to thank the REDD Country Participants who have embarked on the readiness process, a number of which are showing remarkable leadership in taking on the task of reducing emissions by protecting their forests in the context of national development policies. I am also grateful to the Donor Participants and Carbon Fund Participants who have committed financial support to back up REDD country efforts. Clearly, additional capital is needed both in and outside the FCPF to sustain national REDD readiness efforts and future performance-based payments.

The first year of operation of the FCPF Readiness Fund has generated useful lessons to the entire REDD community, some of which are highlighted in this report. One key lesson is that, despite the urgency of the deforestation and climate change challenges, it takes time and true partnership for countries to get ready for REDD. Proper diagnostic, proper consultations and citizen engagement, and proper programming do not happen overnight. It is important that these not be rushed so that REDD may make a lasting contribution to climate change mitigation.

In the critical year ahead, the work of the FCPF and the REDD Country Participants is more important than ever. We should continue to see great strides made as all parties put in place the policies and procedures that will help to deliver on the promise of REDD. It is not too much to say that the eyes of the world are upon us; we must succeed, and I believe that we will.

Katherine Sierra
Vice President, Sustainable Development, World Bank
October 2009

Acronyms

AFD	Agence Française de Développement
AusAid	Australian Government Overseas Aid Program
COICA	Coordinator of Indigenous Organizations of the Amazon Basin
COONAPIP	Coordinadora Nacional De Los Pueblos Indígenas De Panama
CSO	Civil Society Organization
DRC	Democratic Republic of Congo
FDIPFD	Forest Dependent Indigenous Peoples and other Forest Dwellers
FAO	Food and Agriculture Organization
FCPF	Forest Carbon Partnership Facility
FMT	Facility Management Team
FY	Fiscal Year (World Bank fiscal year, beginning July 1 to June 30)
GEF	Global Environment Facility
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IIASA	International Institute for Applied Systems Analysis
IPACC	Indigenous Peoples of Africa Coordinating Committee
IUCN	International Union for the Conservation of Nature
KfW	KfW Bankengruppe
Lao PDR	Lao People's Democratic Republic
MRV	Measurement, Reporting and Verification
NGO	Non-Governmental Organization
PC	Participants Committee
PNG	Papua New Guinea
REDD	Reducing Emissions from Deforestation and Forest Degradation
R-PIN	Readiness Preparation Idea Note
R-Plan	Readiness Plan
R-PP	Readiness Preparation Proposal
SESA	Strategic Environmental and Social Assessment
TAP	Technical Advisory Panel
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNPFII	United Nations Permanent Forum on Indigenous Issues
UN-REDD	The United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
WB	World Bank
WBI	World Bank Institute

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EXECUTIVE SUMMARY

In 2007, developing and industrialized countries requested the World Bank to create a framework for piloting activities to reduce carbon dioxide emissions from deforestation and forest degradation (REDD). The FCPF was formally announced at the thirteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in Bali in December 2007. After more than a year and a half of intensive design, the Forest Carbon Partnership Facility (FCPF) became operational on June 25, 2008.

The two-part facility is designed for learning by doing. It is comprised of a Readiness Mechanism supported by the Readiness Fund and a Carbon Finance Mechanism supported by the Carbon Fund. The FCPF aims to provide technical assistance for REDD in World Bank member countries across the tropics, while piloting and testing approaches that may demonstrate how REDD can work. As part of FCPF “REDD readiness,” developing countries are being supported in their efforts to prepare national reference scenarios of historical and potential future patterns of deforestation and degradation and their emissions, develop country-owned strategies for stemming deforestation and forest degradation, and establish national measurement, reporting and verification (MRV) systems for REDD. These activities fall within the objectives of the first phase Readiness Mechanism and its corresponding multi-donor Readiness Trust Fund. For the Carbon Fund, the focus is on piloting and testing REDD carbon transactions in a subset of countries that have established a sound national framework through the Readiness Mechanism.

With the first full year of FCPF operations completed on June 30, 2009, this Annual Report focuses primarily on the progress and financial status of the Readiness Fund, as the first fund of the FCPF. The Carbon Fund, representing a later phase of the FCPF’s work, is highlighted, but will be reported on more fully after that Fund becomes operational.

This first fiscal year of the FCPF (the “Facility”) has been one of tremendous progress. The most striking characteristic of the first year, in addition to laying the groundwork for how this unique partnership operates, has been an early expansion of the FCPF to meet the much higher than expected demand arising from developing countries interested in building capacity for REDD.

Thirty-seven ‘REDD countries’ (14 in Africa, 15 in Latin America and the Caribbean, and 8 in Asia and the Pacific) have been selected into the FCPF partnership. Thirteen Donor Country Participants and Carbon Fund Participants have joined the Facility, bringing critical early financing and technical resources to develop the potential for REDD globally. In this first year, the Facility has thus almost doubled the number of REDD countries from the original design target of twenty, and has also increased the target volume for the Readiness Fund from \$100 million to a new target of \$185 million, to accommodate the 37 countries. Approximately \$110 million of this new target amount was already raised by the end of FY09 (June 2009). In addition, contributions to the Carbon Fund of about \$50 million have been raised, as progress is being made towards the overall Carbon Fund target of \$200 million.

Early insights after a year of operations of the Readiness Fund include the following:

- The scale, location, and timing of the delivery of REDD emission reductions may depend on how fast countries may build their REDD strategies and programs based on clear diagnostics, address early governance concerns, and design MRV systems; and on how effectively REDD readiness support programs can translate international policy guidance into practical assistance packages to REDD countries;
- The REDD agenda may best be tackled as part of national development policy. Because key drivers of deforestation and forest degradation emanate from outside the forest sector, these drivers need to be addressed as part of REDD readiness;
- Early and continuing engagement of representatives of key stakeholder groups in national readiness efforts may contribute to making REDD more fair and sustainable;
- The FCPF partnership has nurtured a young tradition of candid exchange and learning-by-doing supported by South-South transfers of experimentation;
- National and international partners working on REDD should continue to cooperate to harmonize their procedures and standards; and

While REDD readiness preparation is urgently needed, it must be conducted within the appropriate frameworks, which takes time and resources.

1. FISCAL YEAR 2009 ACHIEVEMENTS

In the summer of 2006, the World Bank began consultations on the crucial issue of REDD, with the goal of developing a new partnership to help tackle tropical deforestation, a major source of global greenhouse gas (GHG) emissions. Through the FCPF, the Bank has sought to convene a broad range of actors – and balance the interests of potential donors and investors, recipients and sellers and other stakeholders of REDD. The FCPF was announced at the 13th Conference of the Parties to the UNFCCC in Bali in December 2007, and became operational on June 25, 2008.

The two-part facility is designed for learning by doing. It is comprised of a Readiness Mechanism supported by the Readiness Fund and a Carbon Finance Mechanism supported by the Carbon Fund. The FCPF aims to provide technical assistance for REDD in World Bank member countries across the tropics, while piloting and testing approaches that may demonstrate how REDD can work. As part of FCPF ‘REDD readiness,’ developing countries are being assisted in preparing national reference scenarios for emissions from deforestation and forest degradation, developing country-owned strategies for stemming deforestation and forest degradation, and establishing national measurement, reporting and verification (MRV) systems for REDD. These activities fall within the objectives of the first phase Readiness Mechanism and its corresponding multi-donor Readiness Trust Fund. For the Carbon Fund, the focus is on piloting and testing REDD carbon transactions in the countries that have established a sound national framework through the Readiness Mechanism.¹

With the first full year of FCPF operations completed on June 30, 2009, this Annual Report focuses primarily on the operational progress and financial status of the Readiness Fund, as the first active fund of the FCPF. The Carbon Fund, representing a later phase of the FCPF’s work, is highlighted in the Report, but will be reported on more fully after that Fund becomes operational.

1.1 OVERVIEW

This fiscal year has been one of substantial progress. The most striking characteristic, in addition to laying the groundwork for how the partnership operates, has been the early expansion of the FCPF to meet the much higher than expected demand from developing countries interested in building capacity for REDD.

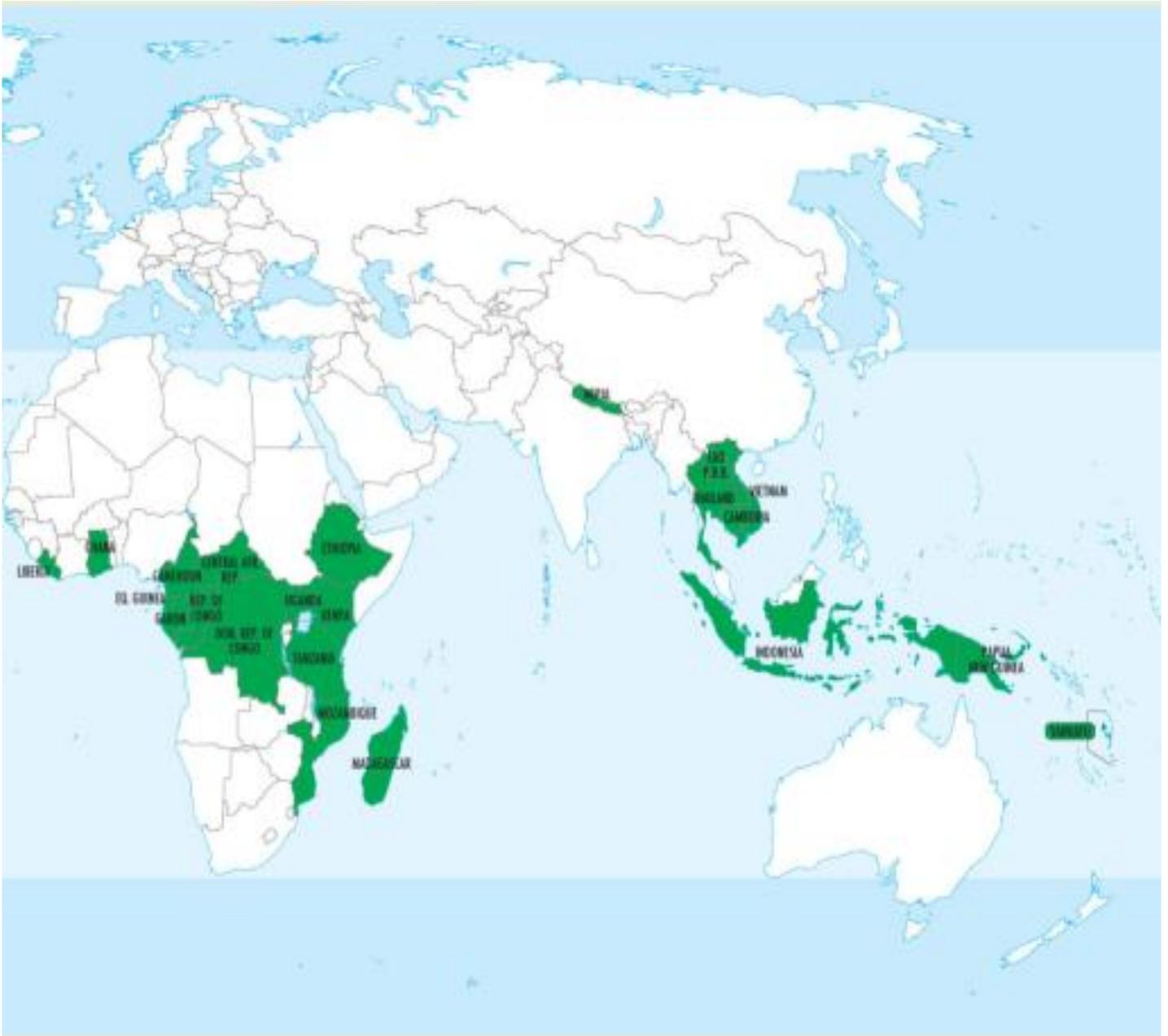
Thirty-seven REDD Country Participants (14 in Africa, 15 in Latin America and the Caribbean and 8 in Asia and the Pacific) have been selected into the FCPF partnership. With the Readiness Mechanism originally designed for twenty countries, the expansion almost doubled the number of developing countries involved in this pioneering partnership and dialogue on REDD. Together, the current REDD Country Participants of the FCPF represent a major share of the tropical and subtropical forested nations of the world (Figure 1).

¹ See the FCPF Charter and Information Memorandum at <http://www.forestcarbonpartnership.org/fcp/node/11>.

Figure 1: FCPF REDD Country Participants

Thirty-seven tropical and subtropical developing countries selected into the FCPF, by the end of fiscal year 2009.





In addition to the REDD Countries, 13 Donor and Carbon Fund Participants have joined the partnership, bringing the essential early financing and technical resources required to help make REDD a reality. In this first year, the Facility has therefore almost doubled the number of REDD countries from the original design target of 20, and has also increased the target volume for the Readiness Fund from \$100 million to a new target of about \$185 million, to fully accommodate the technical assistance currently envisioned for the 37 countries. Approximately \$110 million of this new target amount was raised by the end of FY09 (June 2009). In addition, contributions to the Carbon Fund of about \$50 million have been raised towards the overall Carbon Fund target of \$200 million. Additional information on contributions and the financial status of the FCPF is provided in Section 2 of this Report.

The initial meetings of the FCPF witnessed rich knowledge exchanges on REDD, the election of the first Participants Committee (PC) – the main decision-making body of the FCPF – and the selection of eligible REDD Countries based on the preparation and review of their Readiness Preparation Idea Notes (R-PINs), among many other activities. The first annual budget of the FCPF was approved by the PC in October 2008, laying out the main priorities for the year. The operational status report presented below follows the key activities identified in that budget. These include the activities of the FCPF FMT, FCPF Country Implementation Support and Advisory Services, REDD Methodology Support (a ‘global public good’ of the FCPF), and Trust Fund Administration. Section 2 of the Report provides the budget and expenditure tables that correspond to each of these operational activities.

1.2 ACTIVITIES OF THE FCPF FACILITY MANAGEMENT TEAM

In line with the FCPF Charter, the Facility Management Team (FMT) has focused on developing and supporting the governance structure of the Facility, including the wider Participants Assembly and its elected Participants Committee (PC). Under the guidance of Ms. Kathy Sierra, Vice President of the Sustainable Development Network of the World Bank and the official Chair of the PC, the FMT took on activities ranging from fund raising to program management to meeting organization, and, most importantly, nurturing new partnerships among diverse FCPF stakeholders.

1.2.1 MEETING ORGANIZATION AND SUPPORT TO PARTICIPANTS

During FY09, the FMT organized and followed up on the initial Steering Committee Meeting of July 2008, the first Organizational/Participants Assembly Meeting of October 2008, and PC Meetings in October 2008, March 2009 and June 2009. For each of these meetings, the overall organization as well as participation of eligible REDD Country Participants, and key stakeholders (such as the official Observer for Forest-Dependent Indigenous Peoples and Other Forest Dwellers), was made possible through financial support from the FCPF Readiness Fund. Highlights are provided below.

Steering Committee meeting – July 2008

The Steering Committee met in Paris on July 9-10, 2008, preceded by a one-day meeting of members of the first ad hoc Technical Advisory Panel (TAP) and representatives of most of the 18 countries that had submitted an R-PIN by then. The main goal of the meeting was to discuss and review the R-PINs to select the initial REDD countries for participation in the Readiness Mechanism.

Fourteen eligible REDD countries were selected into the partnership: Bolivia, Costa Rica, the Democratic Republic of Congo (DRC), Gabon, Ghana, Guyana, Kenya, Lao People's Democratic Republic (Lao PDR), Liberia, Madagascar, Mexico, Nepal, Panama and Vietnam.²

The meeting also provided the initial opportunity to test the creation and functioning of a TAP, have a direct information exchange between the first TAP and REDD country representatives, and discuss REDD goals and objectives at both the country level and in regional (or sub-regional) groupings. Steering Committee Members initiated discussions on FCPF priorities for the first year, including the level of grant funding to be allocated to the newly chosen REDD countries in support of their readiness activities.³

Organizational/Participants Assembly Meeting & Participants Committee 1 (PC1) - October 2008

On October 20, 2008, the Organizational Meeting took place in Washington, DC. With approximately 120 representatives in attendance, the Participants Assembly of the FCPF met for the first time, and, consistent with the Charter, will meet at least once a year going forward. The agenda for the day began with a rich knowledge exchange session in which six countries (Brazil, Gabon, Indonesia, Madagascar, Mexico, and Papua New Guinea (PNG)) shared their very diverse national experiences and visions for REDD. The Organizational Meeting ended with the election of the first PC of the FCPF. The PC membership during this year is listed in Table 1. The committee is balanced with 10 Donor/Carbon Fund Participants and 10 REDD Country Participants. In addition there are several official observers to the PC.

The PC met immediately afterwards, on October 21-22, 2008, and discussed matters related to REDD country selection, rules of procedure, designation of observers, etc. The FY09 budget proposal of the FMT was approved. An additional set of REDD countries was welcomed into the partnership based on the quality of their R-PINs (Argentina, Cameroon, Colombia, Ethiopia, Nicaragua, PNG, Paraguay, Peru, the Republic of Congo, Uganda, and Vanuatu). Due to financial constraints, not all of these countries were guaranteed more than the \$200,000 of grant money to formulate their R-PPs.⁴

Participants Committee 2 (PC2) – March 2009

The second meeting of the PC was held in Panama on March 11-13, 2009. Issues addressed in the meeting included REDD country selection – whereby the final 12 countries of this phase of the FCPF were selected into the partnership (Cambodia, Central African Republic (CAR), Chile, El Salvador, Equatorial Guinea, Guatemala, Honduras, Indonesia, Mozambique, Suriname, Tanzania, and Thailand). It was agreed at that time that an evaluation of the FCPF should take place before any additional phase or expansion was considered. This 'final' list of REDD countries was selected based on geographical diversity and the quality of submitted R-PINs. Given the need for additional fundraising for the

² The R-PINs submitted by these countries and the other countries selected into the partnership are available at <http://www.forestcarbonpartnership.org/fcp/node/203>.

³ The conclusions and background materials of the Steering Committee meeting are available at <http://www.forestcarbonpartnership.org/fcp/node/90>.

⁴ The conclusions and background materials of the first Participants Assembly meeting and the PC 1 meeting are available at <http://www.forestcarbonpartnership.org/fcp/node/91>.

Readiness Fund to match the expansion, the countries were selected with the understanding that technical assistance grants may not be available to them until additional fund raising goals are met.⁵

Table 1: Composition of the First FCPF Participants Committee

REDD Countries	Donor/Carbon Fund Participants	Observers to the PC
Bolivia	Agence Française de Développement	Forest-Dependent Indigenous Peoples and other Forest Dwellers
Costa Rica	Australia	International Organizations
Democratic Republic of Congo	Germany	NGOs
Gabon	Japan	Private Sector
Ghana	The Nature Conservancy	UNFCCC Secretariat
Guyana	The Netherlands	UN-REDD Programme
Madagascar	Norway	
Nepal	Switzerland	
Panama	United Kingdom	
Vietnam	United States	

Participants Committee 3 (PC3) – June 2009

The third meeting of the FCPF Participants Committee (PC3) took place on June 16-18, 2009 in Montreux, Switzerland. In addition to approving the FY10 budget, emphasis in the meeting was placed on the procedures for readiness planning, including extensive discussion of the contents of the “Readiness Preparation Proposal” or R-PP, which has replaced the document originally called “R-Plan” in the FCPF Charter. It was agreed that the R-PP is a more suitable document to reflect the earlier and more upstream work involved in preparing for REDD.

Three pioneering REDD countries – Guyana, Indonesia and Panama – were the first FCPF countries to submit their R-PPs for review at this level by the PC. Prior to the meeting, the three R-PPs were reviewed by TAPs and operational teams in the World Bank. At the meeting, the countries presented their proposals, followed by a TAP review and a general PC discussion. The PC recognized the efforts of the countries and authorized the Bank to complete its due diligence on the proposals with a view to entering into Readiness Grant Agreements with these countries, whereby they would be able to access up to \$3.6 million to carry out the work provided for in their R-PPs.

At the meeting the FMT made a preliminary presentation of a framework called Strategic Environmental and Social Assessment (SESA) designed to integrate environmental and social considerations and safeguards into the readiness preparation process.⁶

After the meeting, the FMT collected comments on the draft R-PP template and the proposed process for reviewing and assessing R-PPs. The R-PP template is now available in English, French and Spanish.⁷

⁵ The conclusions and background materials of the PC 2 meeting are available at <http://www.forestcarbonpartnership.org/fcp/Node/114>.

⁶ The conclusions and background materials of the PC 3 meeting are available at <http://www.forestcarbonpartnership.org/fcp/Node/243>.

1.2.2 NURTURING PARTNERSHIPS & THE PARTICIPATION OF KEY STAKEHOLDERS

Given the unique nature of the FCPF— which aims to convene and balance the diverse interests involved in REDD – a major objective of the Facility’s first year has been to nurture the new partnerships required to make REDD happen, as well as give voice to and solicit inputs from key stakeholders.

Over the course of the design and consultation process for the FCPF, as well as during the first year, six official observers have become active participants in PC meetings. These observers – representing forest-dependent Indigenous Peoples and other forest dwellers, international organizations, non-governmental organizations, the non-contributing private sector, the UNFCCC Secretariat and the UN-REDD Programme – have helped to shape the direction of the Facility. Each observer has a key role in reaching out to the broader community it represents to exchange information on REDD and the FCPF process.

The participation of forest-dependent Indigenous Peoples and other forest dwellers is included in the FCPF Charter as an essential element of the readiness process. Ways to reinforce this inclusion were built into the Facility from its inception, starting with the official observer role on the PC to seeking indigenous experts to work on TAPs.

For selection of the Indigenous Peoples’ observer, during FY09 the FMT benefitted from the participation and guidance of the United Nations Permanent Forum on Indigenous Issues (UNPFII) which delegated the observer role to the International Alliance of Indigenous and Tribal Peoples of Tropical Forests. More recently, discussions have been under way with UNPFII and others to design a more structured self-selection process for the Indigenous Peoples’ observer role, in collaboration with the Forest Investment Program under the Climate Investment Funds.

Beyond these processes, there has been a rich set of information exchanges on REDD and the FCPF with representatives of Indigenous Peoples. Table 2 lists several of the events in which FCPF staff participated during FY09.

Table 2: Information Exchange with Indigenous Peoples and Other Forest Dwellers in FY09

IUCN Congress (Barcelona, October 2008)	IPACC workshop (Marrakech, February 2009)
International Conference on Rights, Forests & Climate Change (Oslo, October 2008)	Africa Summit on Climate Change and Indigenous Peoples (Nakuru, March 2009)
UN-REDD Global Consultation on REDD (Baguio, November 2008)	Ghana missions (August 2008 and May 2009)
Indonesia mission (December 2008)	Panama missions & Kuna General Congress (February and March 2009)

⁷ The R-PP templates in English, French and Spanish and the Program Document on review and assessment of R-PPs are available at <http://www.forestcarbonpartnership.org>.

DRC missions (January and May 2009)	Indigenous Peoples' Global Summit on Climate Change (Anchorage, April 2009)
Asia Summit on Climate Change and Indigenous Peoples (Bali, February 2009)	UN Permanent Forum on Indigenous Issues (New York, May 2009)

1.2.3 FCPF COMMUNICATIONS AND REDD KNOWLEDGE EXCHANGE

In its first year, the FMT also took important steps to develop the Facility's role as an international platform for communication and knowledge sharing on REDD. The initial brochure designed for the Facility's launch was converted into a more comprehensive document at the end of the fiscal year. At the request of stakeholders, efforts have been made to provide this brochure and key documents of the FCPF, to the extent possible, in English, Spanish and French.

During FY09, the first website of the FCPF was replaced with an improved web platform (www.forestcarbonpartnership.org), to facilitate FCPF communications with Participants, as well as broad information sharing on REDD with global stakeholders. The site is enabling global dissemination of most FCPF documents, in line with the policy of disclosure highlighted in the FCPF Charter and has generated a considerable number of website visits in the latter half of the fiscal year. The secure Participants Space is being used to share pre-meeting and draft materials with members of the Participants Committee and to request their input from around the world. The FCPF FMT is committed to posting presentations, documents and other useful materials as soon as they are available through this interface. With the strengthening of FMT staffing expertise in the area of communications in late FY09, these efforts can be expected to expand in FY10.

The FCPF Readiness Mechanism provided other opportunities to support knowledge exchange, including in official meetings – with Brazil and others leading in South-South exchange on their national frameworks for REDD; countries such as Indonesia, Madagascar and Mexico presenting their vision for national/sub-national REDD linkages, and others (DRC, Gabon, Vietnam) presenting a regional approach to REDD. PC meetings in FY09 enabled Participants to participate in field visits and see first-hand the forest protection and REDD-related work underway in Panama and Switzerland.

1.3 COUNTRY IMPLEMENTATION SUPPORT AND ADVISORY SERVICES

Technical assistance to REDD countries is the core product of the Readiness Mechanism. For budgeting purposes, this work has been divided into two closely linked sets of activities: (1) Country Implementation Support, comprised of Readiness preparation support and fiduciary and safeguard support from World Bank country teams; and (2) Country Advisory Services, comprised of FMT coordination and feedback on R-PINs and other aspects of country readiness work. The latter include general guidance provided to countries on social and environmental issues, preparation of generic terms of reference and sharing cross-country experiences and emerging global guidance on REDD with individual REDD Country Participants.

1.3.1 STATUS OF REDD COUNTRY PARTICIPATION IN THE FCPF

Figure 2 summarizes the progress of REDD countries in the first stages of REDD readiness. By June 30, 2009, 37 REDD Countries had been selected for the Readiness Mechanism, 30 of the countries had signed Participation Agreements reconfirming their role in the FCPF and 18 REDD country governments had submitted detailed grant proposals (with three of the Grant Agreements fully signed). Three R-PPs (formerly called R-Plans) were submitted and assessed at the June 2009 Participants Committee Meeting in Montreux, Switzerland.

With the expansion of the Readiness Mechanism to 37 REDD Country Participants, there was considerable additional work in FY09 – both organizational and technical – than originally expected for the initial 20 REDD Country Participants. Each of the 37 R-PINs submitted to the FMT benefited from review and technical discussions with the REDD country. Ultimately, each country's R-PIN received between one and three TAP reviews/discussions, FMT reviews, and informal reviews by World Bank country teams. These comprehensive reviews appear to have been useful, as the quality of R-PINs was seen by TAP experts to have shown improvement over the course of the fiscal year.

Figure 2: Status of REDD Country Participation in the FCPF (as of June 30, 2009)



While teams in eligible REDD Countries and at the World Bank were being staffed, progress on preparation grants began slowly in FY09. However, by the end of FY09, grant processing accelerated, with 18 REDD Country Participants submitting proposals for grant financing to support their early readiness work. World Bank teams provided advice and conducted procurement and financial management assessments to support use of the grants within those countries. Three countries had completed this process and signed grant agreements, with six more in process at the end of the fiscal year (as of the writing of this Report, 10 countries have finalized their grant agreements).

In parallel with identification and processing of grant-financed REDD activities, many REDD Country Participants were actively engaged in the technical and other underpinnings of preparing for REDD – both within the context of the FCPF and with the many partners to the REDD process. Several countries established REDD Working Groups or initiated analysis which will be essential to setting national objectives and a national framework for REDD. The FMT and Facility partners have aimed to ensure that any FCPF technical assistance is well coordinated with such efforts, and takes into account the ongoing

work when readiness programs are designed. Some examples of this ongoing work are highlighted in Figure 3.

Toward the end of the fiscal year, several REDD Country Participants began to shift focus from the initial R-PIN to the more detailed R-PP. While progress on R-PPs (formerly called “R-Plans”) was slower than originally anticipated, the PC put considerable effort from March through June 2009 into discussing and clarifying the elements and criteria for a well-prepared R-PP. Three pioneering countries – Guyana, Indonesia, and Panama – submitted R-PPs, and subsequently received comments and assistance to help them advance their REDD readiness work programs. These reviews, along with consultations with a broad range of government, private sector, NGO and indigenous representatives, stimulated significant revisions.

Figure 3: Examples of Country Analysis and Preparation for REDD



1.3.2 COLLABORATION WITH PARTNERS IN REDD COUNTRIES

Efforts were also made to conduct joint work and harmonized missions between the FCPF and other partners supporting the REDD process in each country, in particular with the UN-REDD Programme, and with bilateral and other agencies. Steps were taken in more than 10 REDD countries to better harmonize the work underway. Some examples are listed in Figure 4.

In response to calls for improving coordination, the FMT and UN-REDD Programme Secretariat agreed on the terms of collaboration at the global and national levels. One of the tenets of this agreement was the commitment of the two initiatives to support one REDD program in the countries where they both intervene (the so-called ‘joint countries’, i.e., 8 out of the 37 countries selected into the FCPF and of the 9 countries selected into the UN-REDD Programme). The two initiatives closely coordinated their country visits and the messages to the REDD country governments. In order to minimize transaction costs to these countries, the two teams also undertook to harmonize their guidelines on consultation

and stakeholder engagement and their document templates (the R-PP in the case of the FCPF and the National Programme Document in the case of UN-REDD). Harmonization does not mean complete similarity given differences in standards and processes between the World Bank and the United Nations. The complementarity between the two initiatives in some of the ‘joint countries’ has emerged, with the FCPF R-PP providing a broad framework for organizing the REDD readiness process, and the UN-REDD National Programme Document focusing more on ‘quick-start’ readiness activities.

Figure 4: Coordination with REDD Partners in FCPF REDD Countries



*Partners: Agence Française de Développement (AFD), AusAid, Denmark, Finland, GEF, International Union for Conservation of Nature (IUCN), Japan, KfW Bankengruppe (KfW), Moore Foundation, the Netherlands, Norway, UNDP, UN-REDD, civil society, etc.

1.4 GLOBAL REDD METHODOLOGY SUPPORT

A crucial ‘global public good’ of the FCPF partnership is providing support to those developing REDD methodologies around the globe. During the first year of operation, the FCPF aimed to support progress on the many unanswered questions of REDD through: (i) financing and coordinating the work of independent TAPs; (ii) developing basic elements of country readiness preparation, including templates to organize and convey information within and about REDD countries; and (iii) ensuring adequate liaison with global forestry programs, UN-REDD and the international teams developing REDD methodologies. In approval of the FY09 budget, the PC also agreed to establish a capacity building program for forest-dependent Indigenous Peoples, and provide for contingency funds to enable the FCPF to respond to new opportunities for technical cooperation in the coming years.

1.4.1 CREATION OF INDEPENDENT AD HOC TECHNICAL ADVISORY PANELS

A large share of the FY09 REDD methodology work program was focused on establishing the first TAPs. Because the role of the TAP, as an independent voice, is so critical to the FCPF process, much time and energy went into contracting top notch panels of experts to review the preparatory work of the REDD Country Participants. The panels are comprised of experts nominated by FCPF Participants and stakeholders. Importantly, TAP experts have provided a diversity of perspectives, with forestry,

international development and regional expertise, among others. Indigenous experts have been included on most TAP review teams.

Early in FY09, the first TAP of about 20 experts was created to discuss and provide technical feedback on the first set of R-PINs. To give a sense of the magnitude of the coordination, each R-PIN was reviewed by at least four individuals – with 37 countries selected, the country selection process alone involved 150 independent reviews.

A TAP was also created to review the first R-PPs received. Given the much greater level of detail required and greater scope at this planning stage for REDD, the TAP that reviewed the first R-PPs needed to include a broad level of technical expertise, as well as relevant country experience. Evolution of the TAP process through the first year has led to the creation of a roster of technical experts on REDD which is published on the FCPF web site and expanded by FCPF Participants over time. The roster contains experts nominated by countries and organizations based on calls from the FMT (nominations are still welcome). TAP members, acting in their personal capacity (rather than representing the views of any organization), have been instrumental in both providing country feedback and helping to define criteria and processes on the way to REDD readiness.

1.4.2 DEVELOPMENT OF FCPF READINESS INSTRUMENTS

In this first year of FCPF operation, several key instruments were developed by the FMT, PC and numerous partners, to support the technical assistance process of the Readiness Mechanism and to assist countries in defining their vision and objectives for REDD. Key products included the creation of both the template and corresponding processes for the R-PIN and an evolving template, guidance notes and review criteria for the R-PP. Important progress was made during FY09 in establishing the environmental and social due diligence framework for the FCPF, in close consultation with the UN-REDD Programme and in elaborating a guidance document for effective consultation and participation.⁸ These various documents may evolve further in the future as more experience is acquired and in an effort to harmonize FCPF approaches and standards with those of other initiatives on REDD, in particular the UN-REDD Programme and the Forest Investment Program.

1.4.3 ADVANCING KNOWLEDGE ON KEY REDD ISSUES

Complementing country-level work on REDD, the FCPF REDD Methodology Support work program involved efforts to advance the thinking on key REDD topics – such as reference scenarios (i.e., historical and future patterns of deforestation and degradation), REDD modeling efforts, MRV, and economic analysis of the costs of REDD.

Among the outputs of this program in FY09 was a paper on the opportunity costs of REDD.⁹ Agreement was also reached with the World Agroforestry Centre (ICRAF/ASB Program) to develop training modules for analysis of opportunity costs and to train trainers. The FMT was able to leverage 50% in co-financing

⁸ See the note on Consultation and Participation at <http://www.forestcarbonpartnership.org/fcp/node/31>.

⁹ See the note on REDD Opportunity Costs at <http://www.forestcarbonpartnership.org/fcp/node/31>.

from the World Bank Institute (WBI) Carbon Finance Assist program, with some of the \$200,000 contingency funding agreed by the PC in October 2008.

In a welcomed new partnership, the Global Environment Facility (GEF) approved a \$1 million grant to the FCPF for a REDD capacity development program in FY09. The capacity building work will be undertaken jointly over the next two years with the Coalition for Rainforest Nations, Germany, and UN-REDD Programme.

In FY09, the FMT ensured that the FCPF contributed to multiple events promoting dialogue on REDD (Table 3). Work on reference scenarios and REDD modeling methods gained momentum, with high-level presentations, workshops, and the support of regional studies. Thought pieces were presented to UNFCCC Expert Groups in both June 2008 and March 2009. Workshops comparing model methods and results, and an early process to develop guidance took place in October 2008 and April 2009. Support was provided to a regional study modeling future drivers of deforestation and degradation in six Congo Basin countries (with IIASA, WB, GEF, and others).

Table 3: FCPF Promotion of REDD Knowledge Sharing

Venue	When	Dialogue on
Indonesia REDD Market Place		Exhibition of REDD projects being prepared in Indonesia
COP14 (Poznan)	Dec 2008	Joint FCPF-UN-REDD cooperation Early country REDD experiences
Forum on Readiness for REDD (Accra, Bonn, Amazon region, Brazil)	Aug, Dec 2008 March 2009	REDD-related issues South-South cooperation
WRI discussions	Oct, Dec 2008 Mar 2009	Governance and REDD
Briefing for EU delegations	April 2009	FCPF awareness and fundraising
WWF Summit on Forest Carbon	Apr 2009	Key requirements for REDD to work How to engage the private sector in REDD
XIV Katoomba Meeting	April 2009	Sub-national vs. national scale of REDD
Carbon Expo	May 2009	Expectations on REDD from Copenhagen
Climate, Community & Biodiversity Alliance	May 2009	Environmental & social standards for REDD

In the area of MRV, FMT staff participated in Coalition for Rainforest Nations/FAO workshops on forest inventory and remote sensing in February and April of 2009. Coordination with FAO, UN-REDD, and others to define MRV needs was also undertaken.

1.4.4 INDIGENOUS PEOPLES' CAPACITY BUILDING PROGRAM ON REDD

During its October 2008 budget discussion, the PC approved a line item of \$1,000,000 (\$200,000 per year for 5 years) to fund the creation of a Capacity Building Program for Forest-Dependent Indigenous Peoples and other Forest Dwellers ("IP Program") within the FCPF. The IP Program consists of small grants to mostly indigenous peoples organizations to build knowledge and understanding of REDD at the national and regional levels. By the end of FY09, about \$181,444 was committed to the following initiatives:

1. **COICA (Amazonia)**: Organize regional workshops and produce reference document on REDD as contribution towards Copenhagen;
2. **COONAPIP (Panama)**: Organize 11 workshops for information exchange, arrive at a common position on REDD and the government's proposal to the FCPF; and
3. **IPACC (Africa)**: Organize regional and national workshops, and produce a toolkit on REDD to train trainers at country level.¹⁰

1.5 TRUST FUND ADMINISTRATION

In the final category of budgeted activities of the Readiness Fund is the fixed administrative cost of trust fund administration. The World Bank serves as trustee for all FCPF funds, including: preparing annual business plans and long-term financial projections, producing the Annual Report, overseeing accounting, financial audits, and contribution management and legal services to both the Readiness Trust Fund and the Carbon Fund. As per the FCPF Charter, the trustee is also responsible for commissioning a mid-term evaluation of the FCPF.

1.5.1 FUND CREATION AND DEVELOPMENT

Following the extensive consultation/design process of the FCPF, which had begun in the summer of 2006, the Readiness Trust Fund was opened for contributions on June 13, 2008. By the end of FY09, there were a total of ten Donor Participants and five Carbon Fund Participants representing 13 financial contributors (see Table 4). The United Kingdom and Norway, having contributed to both funds, serve as combined Donor/Carbon Fund Participants.

The initial Steering Committee meeting was held within one month of opening the FCPF. As per the Charter, the Committee was comprised of the nine Donor and/or Carbon Fund Participants and the 14 eligible REDD Country Participants that had either finalized their financial contributions or completed R-PINs in time for review at the meeting.

¹⁰ The reports of these initiatives are available at <http://www.forestcarbonpartnership.org/fcp/node/248>.

Table 4: Readiness Fund Participation Contributions as of June 30, 2009 (in \$ million)

	FY09	FY10	FY11	FY12	Totals
Australia	9.5				9.5
Finland	9.0				9.0
AFD (France)	4.6	0.4			5.0
Japan	5.0	5.0			10.0
Netherlands	5.0	5.1	5.1	5.1	20.3
Norway	5.0	15.0	10.0		30.0
Spain	7.0				7.0
Switzerland	8.2				8.2
United Kingdom		5.7			
United States of America	0.5	4.5			5.0
FY Totals	53.8	35.7	15.1	5.1	109.7

Given the need to establish a full Participants Committee for budget deliberations, the FY09 Annual Budget of the FCPF was presented for review in October 2008 – and approved by PC1. At that time, the FMT announced that it had reached agreement within the World Bank to have the full \$2.35 million cost of developing the FCPF paid from World Bank resources, rather than from Fund capital (as is the normal practice for World Bank-managed carbon funds). This important contribution from the World Bank responded to calls from FCPF stakeholders during the consultation/design process, and enabled the newly opened Facility to devote all of its resources to the Facility’s operational phase. Similarly, an agreement was reached within IBRD to achieve cost savings through absorption of some overhead expenses associated with FCPF work.

Discussions across the IBRD established this entirely new, and fairly complex, program within IBRD, including development of a budgeting system which will enable direct monitoring of costs related to the Facility.

Because an objective and detailed evaluation is important to this unique partnership, which places emphasis on “learning by doing,” in FY09, the first year of operations, the FMT has also already initiated scoping work on an FCPF evaluation with external organizations.

1.5.2 CONTRIBUTIONS AND PARTICIPATION

Raising financial resources for readiness was an essential goal of FY09. The Readiness Fund surpassed its original target of \$100 million, with firm funding commitments of about \$110 million (fluctuating somewhat with exchange rates) in support of REDD readiness, signed by the 10 Donor Participants. The Donor Participants are: Australia, Finland, Agence Française de Développement (France), Japan, the Netherlands, Norway, Spain, Switzerland, the United Kingdom, and the United States of America. Discussions with other potential donors have been ongoing, and it is likely that new resources will be signed into Donor Participation Agreements in early 2010.

The Carbon Fund of the FCPF signed 14 confidentiality agreements with potential investors in FY09. By June 30, 2009, the Fund had firm commitments of about \$50 million from five Carbon Fund Participants

– the European Commission, Germany, Norway, The Nature Conservancy and the United Kingdom (Table 5). In particular, funds from the UK have been fully agreed, but will flow through the Strategic Climate Fund (established separately under the Climate Investment Funds) once transfer terms are met. Upon completion of this formal transfer, the FCPF Carbon Fund will be made operational, as its capital base will have surpassed the threshold of \$40 million agreed in the FCPF Charter. The Operational Date for the Carbon Fund is expected shortly, and the administrative budget of the Carbon Fund will be reported separately after that time to Carbon Fund Participants.

Table 5: Carbon Fund Participation Contributions as of June 30, 2009 (in \$ million)

	FY09	Balance	Totals
European Commission	6.3	0.3	6.7
Germany	4.0	9.0	13.0
Norway	10.0		10.0
The Nature Conservancy	5.0		5.0
United Kingdom		16.2	16.2
Total	25.4	25.6	50.9

2. FY09 FINANCIAL REPORT OF THE READINESS FUND

2.1 BUDGET APPROVAL PROCESS

In line with the FCPF Charter, the PC is responsible for approving annual budgets for the Readiness Fund. The PC also approves annually the Shared Costs of the Facility, which are costs incurred on behalf of both the Readiness Fund and the Carbon Fund. In October 2008, the PC approved an FY09 budget of \$5.373 million for the Readiness Fund, including the Shared Facility Costs (Table 6).

Table 6: Approved FY09 Budget for the Readiness Fund and Shared Facility Costs (in \$ million)

Activities	Budget
FMT	1.335
Country Implementation Support	1.194
Country Advisory Services	0.873
REDD Methodology Support	1.665
o/w IP Capacity Building Program	0.200
o/w Approved Contingency	0.200
Readiness Fund Administration	0.306
Total	5.373

The financial report for the 12-month period ending June 30, 2009 is presented in Tables 7 to 10, with information provided on both a cash and accrual basis. The cash basis tables represent cash expenditures actually disbursed or paid. The accrual basis tables indicate both cash expenditures and certain types of commitments made. In line with World Bank budget policies, once funds are fully committed through contracts or obligations agreed by the Participants (though not necessarily disbursed), they are reserved in the trust fund and no longer available for other activities.

2.2 SOURCES OF FUNDS

Table 7 presents the actual contributions received in the Readiness Fund by the end of FY09. While total signed Donor Participation Agreements amount to about \$110 million, several of the agreements include a phased contribution spread out over a few years. Hence, in the first year, about \$53.9 million was collected into the Readiness Fund, leaving an outstanding balance of about \$56.1 million to be collected in the coming years. If an additional pledge from the Government of Germany (already a Participant in the Carbon Fund) were included in the total, the estimated funding would increase to about \$130 million, subject to exchange rate fluctuations. Germany's pledge to the Readiness Fund of the FCPF is still under consideration and subject to approval by the German parliament. In addition to the \$53.9 million from donor contributions, the FY09 funding includes \$547,000 of investment income.

Table 7: Funds Received into the Readiness Fund as of June 30, 2009 (in \$ million)

Participant Name	Commitment Amount	Contribution Received	Outstanding Balance
Agence Française de Développement	5.000	4.612	0.388
Australia	9.481	9.481	0
Finland	8.974	8.974	0
Japan	10.000	5.000	5.000
Netherlands	20.270	5.000	15.270
Norway	30.200	5.000	25.200
Spain	6.832	6.832	0
Switzerland	8.497	8.497	0
United Kingdom	5.700	0	5.700
United States	5.000	0.500	4.500
Total Contributions Received	109.953	53.895	56.058

Table 8: Funds Received into the Readiness Fund as of December 8, 2009 (in \$ million)*

Participant Name	Commitment Amount	Contribution Received	Outstanding Balance
Agence Française de Développement	5.204	5.204	0
Australia	9.481	9.481	0
Denmark	5.000	0	5.000
Finland	8.974	8.974	0
Japan	10.000	10.000	0
Netherlands	20.270	5.000	15.270
Norway	30.200	21.398	8.802
Spain	6.832	6.832	0
Switzerland	8.497	8.497	0
United Kingdom**	5.700	0	5.700
United States	5.000	5.000	0
Total Contributions Received	115.157	80.385	34.772

*Table 8 was added in December 2009 to reflect updated contributions.

**The UK contribution is available through the Strategic Climate Fund.

2.3 USE OF FUNDS

On a cash basis, total expenditures in FY09 were about \$3.5 million, or 65 percent of the approved FY09 budget. On an accrual basis, total expenditures were about \$4.5 million, or 84 percent of the FY09 budget. The accrual amount is higher due to about \$1.015 million that was committed though not yet expensed or paid to vendors by the end of June 2009. This includes funds related to the Indigenous Peoples' Capacity Building Program as well as funds allocated to World Bank regional/country programs for technical assistance activities now being undertaken with REDD Countries.

Table 9: FY09 Cash Flow Statement as of June 30, 2009 (in \$ million)

Item	Amount
Beginning Balance	0
Donor Contributions	53.895
Investment Income	0.547
Total Receipts	54.442
Cash Disbursement	3.497
Fund Balance	50.945

Table 8 provides a Cash Flow Statement for the Readiness Fund in FY09. The total source of funds was \$54.4 million, with use of funds of \$3.5 million (cash basis), resulting in a fund balance of \$50.9 million on June 30, 2009. The majority of this balance is being set aside to finance grants to REDD Countries which are expected in the future. While many grants are now being processed, they were not yet reflected as a cash expense or accrual by the end of FY09.

Table 9 presents Expenditures by Activity on a cash basis. Cash expenditures included about \$1.0 million for the FCPF FMT, \$0.4 million for Country Implementation Support, \$0.8 million each for Country Advisory Services and REDD Methodology Support, and \$0.5 million for Readiness Fund Administration.

Table 10: Expenditures by Activity - Cash Basis (in \$ million)

Activities	Actual Cash Disbursement	Budget	Difference	Actual Cash Disbursement , Commitment & Reclassification
FMT	0.988	1.335	-0.347	0.988
Country Implementation	0.409	1.194	-0.785	1.159
Country Advisory Services	0.801	0.873	-0.072	0.801
REDD Methodology Support	0.827	1.665	-0.838	1.092
o/w IP Capacity Building	0	.200	-.200	0.181
o/w Contingency	0	.200	-.200	0
Readiness Fund Administration	0.471	0.306	0.165	0.471
Total	3.497	5.373	-1.876	4.512
Expense Rate	65%			84%

The cash expenditures were \$1.876 million lower than the original budget – reflecting in part a conservative approach to budgeting in this first year of the Facility. In addition, the time involved in staffing teams led to some cost savings over the year.

Costs for Country Implementation Support were \$0.785 million lower than the budget. Although there was a higher level of demand in the first year from eligible REDD countries, there was also a somewhat slower than expected progress in terms of rolling out the readiness activities to individual countries. With most country teams now in place, these expenditures accelerated towards the end of FY09.

The costs for REDD Methodology Support were \$0.838 million less than the FY09 budget estimate, largely due to the fact that five separate TAPs had originally been planned to cover document review as well as specific REDD topics of global interest (e.g., REDD valuation, reference scenarios). By the end of FY09, only four TAPs had been developed, with most emphasis on reviewing R-PINs and then R-PPs. In addition, within this category of expenditures, the funds for the Indigenous Peoples Capacity Building program were not yet disbursed (though three proposals were submitted and agreed/committed by the FMT).

The FCPF FMT spent about \$0.347 million less than originally projected in the FY09 budget, reflecting mostly a savings in the costs of meetings and the staffing process.

The only category of expenditures higher than original FY09 plans was Readiness Fund Administration, which increased by \$0.165 million over the budget. This increase came from higher than expected fiduciary and back-office costs, including development of internal processes and set-up of the financial structure of the FCPF within World Bank operational systems. These higher Fund Administration costs were offset considerably by the agreement reached within the World Bank to absorb the FCPF development costs of \$2.35 million in the World Bank budget.

Table 10 shows the Expenditures by Activity on an accrual basis. Total expenditures were \$4.512 million, including \$1.015 million committed but not yet expensed. The committed funds were primarily for Country Implementation Support transferred to World Bank regional units (\$0.753 million out of the total of \$1.159 million), the Indigenous Peoples' Capacity Building program (\$0.181 million) and other unpaid vendor contracts.

Table 11: FY09 Expenditures by Activity –Accrual Basis (in \$ million)

Activities	Actual Cash Disbursement & Commitment	Budget	Difference
FMT	0.988	1.335	-0.347
Country Implementation Support	1.159	1.194	-0.035
Country Advisory Services	0.801	0.873	-0.072
REDD Methodology Support	1.092	1.665	-0.573
o/w IP Capacity Building	0.181	0.200	-0.019
o/w Contingency	0	0.200	-0.200
Readiness Fund Administration	0.471	0.306	0.165
Total	4.512	5.373	-0.861
Expense rate	84%		

While this accrual snapshot provides the full administrative budget commitments of the Readiness Fund in FY09, such commitments do not yet include the considerable grant resources which are being allocated to REDD Participant Countries – and are expected to be the largest activity of the Readiness Fund. In the coming years, these grant allocations are expected to comprise more than \$70 million of the Readiness Fund costs at the current level of capitalization. With additional funds raised by the FCPF,

the grant amounts will increase commensurately. A discussion of the grant amounts, the sources and uses of funds, and the next annual administrative budget of the Readiness Fund took place at PC3 in June 2009 and will be reviewed again in 2010.

2.4 FINANCIAL COMMITMENTS

Commitments are considered ‘notional’ when the Participants Committee has allocated financial resources out of the Readiness Fund. These then turn into ‘full’ commitments when grant agreements are signed. Full commitments lead to disbursements when payments are made. As shown in Table 11, a Readiness Preparation grant amount of \$3.6 million is notionally committed to each of the first 20 countries selected into the FCPF. In addition, five R-PP formulation grants of \$200,000 each are notionally committed to the first 25 countries selected. Overall \$73 million has been notionally committed to grants. At present, ten R-PP formulation grants are signed with \$2 million fully committed.

The first 25 countries are allocated \$270,000 on average in ‘Implementation Support’ (i.e., preparation and fiduciary and safeguard support). Over the lifetime of the Fund, this category represents a notional commitment of \$7.588 million. In addition, all countries are allocated an average of \$436,000 in ‘Country Advisory Services’ and ‘REDD Methodology Support’, currently planned at \$20.539 million over the life of the Fund.

Table 12: Profile of Grants and Services to REDD Country Participants (in \$ million)

Grant size for first 20 Countries	3.600
Implementation support	0.270
Avg. Advisory Services & REDD Methodology Support per Country	0.436
Total FCPF Operational Support per Country for 20 Countries	4.306
Total set aside for REDD countries	95.895
Total set aside for REDD countries %	87%
Total Contributions	110.000

3. CONCLUSIONS & EARLY INSIGHTS

The first year of FCPF Readiness Fund operations has generated some early insights into the preparation for REDD readiness. Below are some of these insights from the point of view of the FMT:

1. The future scale, location, and timing of the delivery of REDD emission reductions will likely depend on some of the following factors:
 - a. How fast countries can build the REDD strategies and programs based on clear diagnostics, resolve early governance concerns, and design MRV systems.
 - i. Analysis of land use trends, forest policy and governance is necessary to ensure that a REDD strategy will directly address the key drivers of deforestation and forest degradation by redressing land use patterns that consume forest, and that institutional arrangements for REDD can deliver incentives for changing land-use behaviors by providing alternative livelihoods. This need for alignment between good analysis and policy-making is not new, but the potential of future performance-based payments may provide a new impetus.
 - ii. Achieving country recognition of phased, pragmatic plans to address key REDD governance issues is essential. However, REDD alone is unlikely to resolve deep-rooted governance issues cutting across sectors and institutions, which may require significant amounts of time and resources beyond the readiness preparation phase as defined in the FCPF context. Countries may need to assess their current capacity and then develop multi-year capacity building programs stepwise, to fill gaps to meet REDD requirements.
 - b. How soon financial resources for capacity building, policy, legal and institutional reforms, and investments will become available, and whether they will be commensurate with the REDD countries' needs. REDD countries' commitment to REDD, starting with readiness, may be difficult to sustain unless they can access sufficient financial resources to support changes in existing land use patterns; and
 - c. How effectively REDD readiness support programs can help translate the emerging UNFCCC policy guidance into clear assistance, in partnership with the countries themselves and with other organizations and programs possessing technical expertise. Addressing REDD technical issues like MRV system design or estimating historical and future patterns of deforestation and degradation may require clear guidance and country capacity building.
2. In many forested developing countries, it may be necessary to place the REDD agenda at the center of national development policy. REDD will not be won in the forests or in the forest sector alone. Key drivers of deforestation and degradation emanate from outside the forest sector, and need to be addressed as part of REDD readiness. Recognizing the cross-sectoral challenge posed by REDD:

- a. Elevating REDD to the highest levels of government could provide guidance and the inter-sectoral arbitrages that REDD may require;
 - b. Establishing a national REDD working group or steering committee with proper representation and expertise to prepare, or advise on, policies, legal and regulatory frameworks and institutions may facilitate the mainstreaming of REDD into national development policy. REDD national management processes need to be cross-sectoral and engage the most relevant sectors and stakeholders with a role in deforestation trends, or likely to be affected by potential REDD strategies. REDD countries are exploring the challenge of REDD management arrangements in their R-PP drafting that reach beyond the lead agency responsible for forests; and
 - c. Deepening the understanding of REDD and increasing the capacity to implement REDD among a large number of stakeholders from the public sector, private sector and civil society, including Indigenous Peoples and local communities of forest-dependent people, may strengthen the basis on which a country embarks on REDD.
3. Early and continuing engagement of representatives of key stakeholder groups may make national REDD readiness efforts fairer and more sustainable. Consultations and participation should be meaningful, and reach out broadly over time to potentially affected stakeholder groups.
4. The challenge of REDD, as encapsulated by the aforementioned goals, is a very tall order. Early experience suggests that it may require:
- a. Genuine commitments of national and international partners, leading to closer cooperation based on more trust among stakeholders and partners;
 - b. Harmonization of procedures and standards across the multiple sources of financing of REDD activities to reduce transaction costs. Significant efforts at harmonization between the FCPF and UN-REDD Programme, but more work may be needed at a strategic level; and
 - c. More human and financial resources in the short to medium term, to support both the early efforts of REDD countries and the international programs (the FCPF Readiness Fund does not have sufficient capital to attend to all 37 countries selected, while the FMT and the World Bank get organized to support these countries' REDD readiness efforts in association with other development partners).
5. The transparent and inclusive sharing of experiences and views on REDD encouraged by the FCPF has nurtured a young tradition of candid exchange and learning-by-doing supported by South-South transfers of experimentation in:
- a. REDD institutional arrangements for national steering groups and consultation processes;
 - b. Early REDD strategy policy approaches to change land use patterns and incentives;

- c. The use of new templates called Readiness Preparation Proposals (R-PPs), designed to assist a country assess itself with respect to deforestation and forest degradation and get organized to become ready for REDD; and
 - d. The use of Technical Advisory Panels' independent expertise as an early form of feedback on countries' emerging R-PINs and R-PPs, allowing early identification of topics needing further development prior to formal review by the partnership.
6. Although readiness preparation support is urgently needed, it takes some time to set up the proper safeguards and fiduciary frameworks for it. With respect to incorporating environmental and social dimensions and safeguards into REDD readiness preparation, the SESA approach seems promising to the extent that it recognizes the very early stages of policy making at which REDD countries are when they enter the REDD readiness preparation phase, while it provides for more targeted instruments as strategy options and other key REDD components are defined.

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