

Forest Carbon Partnership Facility (FCPF) Readiness Mechanism

REDD Country Selection

March 3, 2009 (corrected)

This note summarizes the Readiness Fund situation with respect to country interest and financing, and lays out options for the Participants Committee's consideration.

Introduction

1. By Resolution PC 2008-8 of October 2008, the target size of the Readiness Fund of the FCPF was raised to US\$150 million with a view to including up to 30 REDD Country Participants.
2. As of October 2008, 25 eligible REDD Countries had been selected into the Readiness Mechanism, leaving only five slots to be filled in the next selection round(s).
3. In October 2008, the principle of REDD Country Participants being able to access grant funding for implementing R-Plans only as financial resources become available was adopted. Since the US\$150 million target was not yet raised, as per Resolution PC 2008-2, out of the 25 REDD Countries selected into the Readiness Mechanism, 20 would each have access to grants in the amount of up to US\$3.6 million to prepare and implement R-Plans, subject to R-Plan approval by the PC according to the process set out in the Charter and Attachment II of Resolution PC 2008-3. The remaining five REDD Countries would each have access to grants of up to US\$200,000 to prepare R-Plans.
4. In response to the call of Resolution PC 2008-5 to Donor Participants to increase their contributions to the Readiness Fund, Norway, Finland and Switzerland decided to increase their contributions by US\$25 million, EUR3.5 million and CHF1.1 million, respectively.
5. As a result of these additional contributions, the capital committed to the Readiness Fund in signed Participation Agreements amounts to US\$107 million as of March 3, 2009 based on current exchange rates. This compares to about US\$79 million at the time of the October 2008 meeting. Hence firm commitments now surpass the original US\$100 million target of the Readiness Fund, but are still US\$43 million short of the new target of US\$150 million.
6. The current committed capital of US\$107 million in the Readiness Fund will enable the Trustee to provide grants of up to US\$3.6 million and cover the associated expenses for about 21 REDD Country Participants out of the 25 REDD Country Participants selected so far into the Readiness Mechanism.
7. Based on indicative pledges, the capital expected to be available by the end of 2012 is about US\$126 million, which would cover the grants and associated expenses for about 25 REDD Country Participants (see more details in Annex 1).¹

¹ As shown in Annex 1, based on current projections and at current exchange rates, approximately US\$121 million would be available by the end of FY10, covering the grants and the associated expenses for about 24 REDD Country Participants, and approximately US\$130 million would be available by the end of 2012, covering grants and the associated expenses for about 26 REDD Country Participants.

8. Interest in the Readiness Mechanism continues to be strong. Eleven Eligible REDD Countries have submitted or resubmitted Readiness Plan Idea Notes (R-PINs) for consideration by the Participants Committee (PC) at its March 11-13, 2009 meeting.² These include three countries that have resubmitted R-PINs (Central African Republic, Equatorial Guinea and Tanzania).

9. The quality of the R-PINs submitted for this third round has generally improved significantly compared to the preceding rounds, as suggested by the reviews of the ad hoc Technical Advisory Panel.

10. In accordance with Resolution PC 2008-2, for the purpose of selecting further REDD Country Participants, "priority should be given to those countries that have submitted their R-PINs a second time. The potential benefits of a regional approach should be taken into account in this process."

11. In July 2008, the Facility Management Team (FMT) informed the Steering Committee that a proposal would be made to Indonesia to submit a draft Readiness Plan (R-Plan) instead of an R-PIN to support its request for selection into the Readiness Mechanism. Given the significant work already done by the Indonesia Forest and Climate Association in the run-up to the Bali Conference of December 2007, it was the view of country officials and others that Indonesian REDD activities had progressed beyond an initial R-PIN stage. At that time, the Steering Committee conveyed that the FCPF would benefit from Indonesia's participation. Indonesia has now submitted a draft R-Plan in time for consideration by the PC at its March 11-13, 2009 meeting, and can be considered as the equivalent of an R-PIN for the purpose of review and possible selection into the Readiness Mechanism.³

12. Summing up from the above, in the current budget situation,

- a. Not all the REDD Country Participants selected so far have access to sufficient grant resources to implement their R-Plans;
- b. The competition for the remaining five slots is high; and
- c. The five additional REDD countries that would be selected in the third round would not be able to access grants immediately.

Proposals

13. The new limit of 30 REDD Country Participants stemmed from an assessment by the FMT, supported by the PC, of the number of Eligible REDD Countries that might produce quality R-PINs and likely financing levels as of last October. However, the interest in the Readiness Mechanism since then has increased. All three countries not selected at the second round in October 2008 have resubmitted their R-PINs, and eight more countries have submitted R-PINs, many of which are of good quality. Moreover, Indonesia has submitted an R-Plan.

² The 11 R-PINs have been posted on the password-protected website at <http://wbcarbonfinance.org/Router.cfm?Page=FCPF&FID=34267&ItemID=34267&ft=DocLib&ht=37&dtype=45150&dl=0>.

³ This and other R-Plans are being posted on the FCPF website at <http://wbcarbonfinance.org/Router.cfm?Page=FCPF&FID=34267&ItemID=34267&ft=DocLib&dl=1&ht=45705>.

14. Taking into account the current budget constraints, but also the increased interest in the FCPF, the PC must decide whether to strictly adhere to the cap of 30 REDD Country Participants agreed to in October (Scenario 1), or to allow a limited number of additional countries to participate subject to certain conditions (Scenario 2).

15. Scenario 1 ('Status Quo'): The PC strictly upholds the cap of 30 REDD Country Participants and selects no more than five REDD Country Participants at its March 11-13, 2009 meeting, corresponding to the capitalization target of US\$150 million. The principle of REDD Country Participants being able to access grant funding for implementing R-Plans only as financial resources become available applies. Based on the indicative pledges outlined in paragraph 7, projected resources should be sufficient to extend readiness grants to about 26 REDD Country Participants before the end of 2012. Five more REDD Country Participants could receive grants if more funding is committed.

a. Pros:

- i. The Resolutions adopted in October 2008 stand.
- ii. The fund raising effort to reach the target of US\$150 million should be manageable.
- iii. The size ratio between the Readiness Fund and the Carbon Fund is maintained.

b. Cons:

- i. The selection of the remaining five REDD Country Participants is difficult and controversial given the competition among many R-PINs.
- ii. The cap of 30 REDD Country Participants is hard to reconcile with the spirit of the FCPF as a key knowledge sharing and demonstration activity for REDD.

c. Current funding gap: Based on the US\$107 million capital committed to date, the current funding gap is US\$43 million.

16. Scenario 2 ('Between 30 and 37'): The PC selects a number of REDD Country Participants not limited to five (but up to a maximum of twelve, corresponding to the number of countries that have submitted an R-PIN as of the deadline of December 15, 2008, plus Indonesia), based on the R-PIN selection criteria outlined in the Charter and in accordance with the guidance of Resolution PC 2008-2. REDD countries that have submitted an R-PIN but are not selected in March 2009 would have the option of resubmitting their R-PIN (or an R-Plan) for consideration by the FCPF PC 3 meeting scheduled for June 2009. However, no new R-PIN submissions would be allowed. This would effectively close the R-PIN phase of the FCPF in March 2009, with consideration of any revised R-PINs, as the case may be, in June 2009. This scenario would require an increase in donor funding (by US\$5 million above the US\$150 million target for each additional country above the agreed 30). The principle of REDD Country Participants being able to access grant funding for implementing R-Plans only as financial resources become available still applies. Based on the assumption made in paragraph 7, there should be enough resources to extend grants to about 26 REDD Country Participants before the end of 2012. More REDD Country Participants could receive grants if more funding is committed.

- a. Pros:
 - i. The selection of the remaining REDD Country Participants is less difficult and controversial than in Scenario 1, while it still maintains a focus on the quality criteria outlined in the Charter.
 - ii. The role of the FCPF as a knowledge sharing and demonstration activity for REDD is broadened in response to the strong demand and interest in REDD from developing countries.
- b. Cons:
 - i. Some of the eligible REDD countries may still be excluded in the next round, but tensions would be much lower than in Scenario 1.
 - ii. An increasing number of REDD Countries are selected with no guarantee of obtaining financial support and other services from the FCPF. The PC and other potential donors would have a commensurate pressure to raise new funding.
 - iii. The implementation capacity of the FMT and associated World Bank units would need to be further upgraded, requiring some additional staff resources.⁴
 - iv. Given that some resources would be consumed from the moment the countries are accepted into the Readiness Mechanism, additional funds would need to be allocated to support their participation in the very short term.
- c. Current funding gap: Based on the US\$107 million capital committed to date, the funding gap is US\$43 million as in Scenario 1, plus approximately US\$5 million for each additional country above the 30 threshold.

Financial Proviso

17. In an effort to make resources available to more REDD Country Participants than the 25 referred to in paragraph 6, the PC may wish to consider adopting one or two provisions, which would allow variations on both Scenarios 1 and 2 by creating flexibility to free up financial resources in the Readiness Fund:

- a. Some REDD Countries come to the FCPF with significant financial resources from bilateral or multilateral donors dedicated to REDD. These countries arguably need the FCPF resources less than other countries that do not have access to the same financial support. The PC may therefore take these other sources of finance into account when approving R-Plans and the corresponding grants requested by a REDD Country Participant.

⁴ Given that the FMT is currently operating at or above capacity, efforts are either planned or underway to strengthen staffing for ensuring environmental and social safeguards, communications, knowledge management and secretariat functions. Task teams would also be mobilized in the Bank's Regional units for any additional countries selected into the Readiness Mechanism. The funding estimates per country provided in this note reflect the fact that staffing would need to increase in line with the further increase in countries.

- b. At the time of R-Plan approval, the PC could consider making the grant amounts firmly committed to any REDD Country Participant contingent on the financial resources becoming available. For example, the Grant Agreement could specify a staged approach whereby the first US\$2 million (or another level to be agreed upon) is made available upon R-Plan approval, and the Grant Agreement is then amended up to US\$3.6 million in total, based on needs, the REDD Country Participant's progress report, and subject to availability of resources.⁵

18. The FMT is currently not able to estimate how many of the REDD Country Participants would have sufficient resources for REDD readiness from other sources or would not wish to avail of any FCPF grants. However, the FMT would urge REDD Country Participants to outline all the sources of funding already available for REDD as part of their R-Plans, as requested in the R-Plan template. To gain greater clarity on the financial needs of REDD Country Participants, the FMT would also like to send a questionnaire to the FCPF Donor Participants, requesting information on their plans to support these countries bilaterally (i.e., outside of the FCPF).

19. The FMT encourages donors to respond to the call of Resolution PC 2008-5 for increasing the FCPF Readiness Fund capital. In addition, the FMT also encourages donors to provide financial assistance to REDD Country Participants through channels other than the FCPF and make the information available to the FMT and PC.

Additional Considerations

20. Also in an effort to increase the predictability of the R-Plan approval process and to facilitate technical and financial planning for REDD Country Participants, the FMT proposes the following targets for R-Plan approvals by the PC:

- a. By October 2009: a total of 5-10 R-Plans approved;
- b. By March 2010: a cumulative total of 15-20 R-Plans approved; and
- c. By October 2010: a cumulative total of 20-30 R-Plans to be approved, depending on receipt of funding.

21. The FMT will publish a detailed timetable for country submissions of R-Plans leading to these approval sessions.

22. Notwithstanding the R-Plan approval process, the following principles would be followed when extending grants to implement R-Plans:

⁵ This is analogous to Resolution PC 2008-3, which provided that grants from the FCPF would be made available to the REDD Country Participants in tranches disbursements, with the country suggesting in its R-Plan the milestones for disbursing the first US\$2 million and the condition for disbursing any amount beyond that in a final tranche. Before a REDD Country Participant receives its final disbursement (beyond the first US\$2 million), a progress report would need to be submitted to the FMT, consistent with the Charter. The progress report would be subject to assessment and review by the PC before any final disbursement above the US\$2 million is made. In addition, this last tranche of disbursements would be conditional on having sufficient resources in the Readiness Fund.

- a. Until March 2010, priority for grants would be given to the first 20 REDD Country Participants selected into the Readiness Mechanism⁶; and
 - b. After March 2010, all REDD Country Participants selected into the Readiness Mechanism would be equally eligible to receiving grants.
23. Not all REDD Country Participants will proceed at the same speed to prepare and present their R-Plans, which gives Donor Participants more time to increase their contributions to the FCPF Readiness Fund or to REDD Countries directly so they can meet their REDD readiness needs.
24. With respect to preparation grants of US\$200,000, it is proposed that the PC not allocate such grants to new REDD Countries entering the Readiness Mechanism unless there is clear potential for the recipient REDD Country Participant to access follow-on implementation grants through the FCPF or other sources.

Conclusion

25. The FMT looks to the PC to arrive, preferably by consensus and upholding the spirit of partnership, at a decision between Scenario 1 and Scenario 2, in light of the objectives of the FCPF, and to select the corresponding number of REDD Country Participants from among the 12 Eligible REDD Countries.
26. The FMT further looks to the PC for guidance on the possible evolution of the Readiness Mechanism of the FCPF, including on the appropriateness of a future phase.

⁶ Bolivia, Cameroon, Colombia, Costa Rica, Democratic Republic of Congo, Ethiopia, Gabon, Ghana, Guyana, Kenya, Lao PDR, Liberia, Madagascar, Mexico, Nepal, Panama, Paraguay, Peru, Papua New Guinea and Vietnam.

Annex 1: Expected Contributions to the Readiness Fund as of February 19, 2009

	FY09	FY10	FY11	FY12	Total
AFD (France)	5.0				5.0
Australia	7.5				7.5
Finland	9.0				9.0
Japan	5.0	5.0			10.0
Netherlands	7.0	4.4	4.4	4.4	20.3
Norway	30.0				30.0
Spain	7.0				7.0
Switzerland	8.2				8.2
UK	2.0	3.0			5.0
USA	0.5	4.5			5.0
Germany (tbc)*		18.9			18.9
FY Totals	81.2	35.8	4.4	4.4	125.9

* Subject to signature of Participation Agreement and Parliamentary approval