

Forest Carbon Partnership Facility (FCPF) Readiness Fund

The Implications of Adopting Resolution PC3/2009/4

July 10, 2009

This note outlines the implications of adopting Resolution PC3/2009/4 entitled ‘Sources and Uses of Funds: Addressing the Funding Gap’, particularly Paragraph 3 regarding the allocation of a Total Grant to a country not included in the first group of 20 REDD Country Participants.

Background

1. Resolution PC 2008-2 adopted at the first meeting of the Participants Committee in October 2008 established the following funding arrangement:
 - a. Twenty REDD Country Participants each are granted access to a Total Grant of up to US\$3.6 million;¹ and
 - b. An additional five REDD Country Participants have access to a grant of US\$200,000 for preparing their R-Plans (now Readiness Preparation Proposals or R-PPs).²
2. Resolution PC 2/2009/1 adopted at the second meeting of the Participants Committee in March 2009³ further decided that pending the decision by the Participants Committee on how to address the funding gap arising from more countries having been selected into the FCPF than there were resources available in the Readiness Fund, there would be no committed funding for grants or country implementation support to the last 12 REDD Country Participants selected into the FCPF.⁴
3. Three R-PPs were submitted for review and assessment to the third meeting of the Participants Committee held in Montreux on June 16-18, 2009, two from the first group of 20 REDD Country Participants (Guyana and Panama) and one from the final group of 12 REDD Country Participants (Indonesia).
4. In the case of Guyana and Panama, the PC agreed resolutions for both countries which recognize that the R-PPs provided a sufficient basis to move ahead with readiness funding

¹ 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.

² Argentina, Nicaragua, Republic of Congo, Uganda and Vanuatu.

³ See

http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/7.b_Resolution_1_Country_Selection.pdf.

⁴ Cambodia, Central African Republic, Chile, El Salvador, Equatorial Guinea, Guatemala, Honduras, Indonesia, Mozambique, Suriname, Tanzania and Thailand.

(subject to completion of due diligence, in particular with regard to the World Bank's Operational Policies and Procedures).

5. In the case of Indonesia, the PC recognized that Indonesia had also provided an R-PP which demonstrates extensive efforts towards REDD readiness, and that, absent the current funding gap of the FCPF Readiness Fund, the country would be deemed eligible by the PC for a Total Grant subject to the same conditions as Panama and Guyana. However, before approving this Resolution, it would be necessary to first approve Resolution PC3/2009/4 'Sources and Uses of Funds: Addressing the Funding Gap', specifically paragraph 3 which currently reads as follows:

'On a case-by-case basis, (the PC) may decide to allocate a Total Grant to a REDD Country Participant not included in the first group of twenty countries.'

6. The Resolution also includes a paragraph (2) regarding moving to a 'first come, first served' selection process after the PC meeting planned for June 2010, which reads as follows:

(The PC) provides access, until the sixth meeting of the PC, which is currently planned for June 2010, to a grant of up to US\$3.6 million (Total Grant) for the first group of twenty countries selected into the FCPF, subject to the decision by the PC regarding such REDD Country Participant's Readiness Preparation Proposal (R-PP); thereafter all REDD Country Participants shall be equally eligible for the grant, taking into account regional balance.

7. There was insufficient time for the PC to discuss and approve this 'Sources and Uses' resolution or the resolution regarding the Indonesian R-PP before the termination of the Participants Committee meeting. The meeting was adjourned and it was agreed to 'reconvene' virtually with a view to reaching an agreement on the pending resolutions.

8. The PC reconvened in the evening of the final day (Thursday 18 June) but a quorum was not present. Draft resolutions were prepared by that informal meeting and these are being circulated by the FMT as agreed at that meeting. It was also agreed that the FMT should prepare and circulate an accompanying note explaining the implications of invoking the 'Sources and Uses' resolution and the R-PP resolution for Indonesia.

Current Funding Situation

9. Note FMT 2009-4-rev entitled 'Resolving the Funding Gap', discussed at the Montreux PC meeting and available on the FCPF website (www.forestcarbonpartnership.org), summarizes the funding situation of the Readiness Fund as at June 2009. This note includes a plan for the expected sources and uses of funds based on committed funding at that time and the commitments to REDD Country Participants outlined in paragraphs 1 and 2 above. This plan indicates a small projected deficit over the term of the fund of US\$2 million.⁵ This deficit does not take into account Germany's public pledge of approximately US\$20 million.⁶

⁵ Given the several assumptions required to estimate expenditures over the long term, a projected deficit of this magnitude is not a concern at this time.

⁶ Germany made a public pledge to the FCPF of €40 million and has signed a Donor Participation Agreement with the FCPF Carbon Fund for €10 million. The remaining €30 million is contingent on Parliamentary approval and the German government signing a Donor Participation Agreement with the FCPF. Half of this remaining balance, namely €15 million (equivalent to approximately US\$20 million), is included in the possible total funding to the Readiness Fund, but is not included in committed funding.

10. This sources and uses of funds plan includes meeting costs and some review of materials relating to the final group of 12 REDD Country Participants, but not country implementation support costs for that group. Thus, total additional costs per country, based on providing a Total Grant of US\$3.6 million and associated country implementation support to that final group of 12 countries, are estimated at US\$4 million per country (represented by a Total Grant of US\$3.6 million plus country implementation support costs of US\$0.4 million).

The Implications

Option a: Approve Resolutions 4 and 5

11. If draft Resolutions PC3/2009/4 and PC3/2009/5 are adopted, the projected deficit over the term of the fund would increase from US\$2 million to US\$6 million. Of course, under World Bank Trust Fund policies⁷, such a deficit would not be allowed.

12. However, there are a number of assumptions built into this long term projected deficit. They are as follows:

- a. The German pledge is not approved by Parliament and as a result the contribution from Germany cannot be formalized;
- b. All of the first group of 20 REDD Country Participants submit R-PPs by the June 2010 PC which, after review and assessment, provide the PC with a sufficient basis to proceed with a grant;
- c. All of this first group of 20 complete the due diligence requirements of FCPF grants, including meeting environmental and social safeguards;
- d. None of the first group of 20 have access to sufficient alternative sources of funding for R-PP implementation and thus all apply for a Total Grant; and
- e. There is no additional funding made available to the Readiness Fund by the time the 21 Total Grant agreements are required to be signed - from additional contributions of existing Donor Participants or new FCPF donors.

13. The combination of all of these events is a prerequisite for the over-commitment of the Readiness Fund referred to in paragraph 11 above. The likelihood of all events occurring is low.

14. The possible downside (or impact), in the unlikely event that all the assumptions outlined in paragraph 12 above occur, is the inability of the Fund to make Total Grants to all of the REDD Country Participants in the first group of 20 selected by the Participants Committee. Should all the above events occur, the PC would be required to select at least one of those 20 countries for which a Total Grant could not be allocated, reduce the size of grants allocated in some cases, or adopt some other mitigation measure. The PC would need to agree the criteria for such exclusion or reduction in due course, i.e., after all the events listed in paragraph 12 occur or when it should become likely that they will occur.

15. However, the likely upside of Option a is supporting the considerable work already undertaken by Indonesia, as one of the first pioneers of the R-Plan/R-PP, strengthening the continued steps toward Readiness in an extremely important country in the context of REDD, and learning from Indonesia's experience.

⁷ Outlined in FMT Note 2009-4-rev entitled 'Resolving the Funding Gap'

16. From a risk management perspective, the FMT assesses the financial risk to the Readiness Fund of invoking these two resolutions to be negligible. Should all the events listed in paragraph 12 occur, there would be a reputational risk for both the FCPF and the World Bank, although this is not viewed as significant and can be minimized by further actions and decisions of the PC.

Option b: 'Status Quo', without Approval of Resolutions 4 and 5

17. The PC can elect Option b, which is to not approve or delay approval of draft Resolutions PC3/2009/4 and PC3/2009/5. However, the potential negative repercussions of not passing the two draft resolutions are greater, both from a likelihood perspective and from an impact perspective. It is the understanding of the FMT that, given the PC's commendation of the Indonesia R-PP, and the country's efforts to pioneer this important work, it would be viewed as a significant disappointment for the FCPF to drop or delay further support for REDD Readiness in Indonesia at this time, due to the FCPF funding gap.

18. Regardless of the PC decision regarding paragraph 3 of draft Resolution PC3/2009/4 (the case-by-case exception), there would also be repercussions of not approving Paragraph 2 of that Resolution, regarding moving to a 'first come, first served' selection process after the PC meeting planned for June 2010. If this paragraph is not approved, and no additional funding is committed, delays experienced by the first group of 20 REDD Country Participants could hold back the Readiness Fund. There would be minimal incentive for countries in the first group of 20 to move quickly to submission of an R-PP. Similarly, there would be little incentive for those countries not in the first group of 20 to submit R-PPs.

Conclusion

19. Given the strong support of the PC for Indonesia's R-PP, together with the low likelihood of all events outlined in paragraph 12 occurring and, thus, the low likelihood that the PC would be required to select at least one country from the first group of 20 REDD Countries for which a Total Grant could not be allocated, or reduce the size of grants allocated to some of those countries, the FMT recommends the adoption of both draft Resolutions PC3/2009/4 and PC3/2009/5.