

## Forest Carbon Partnership Facility (FCPF)

### Readiness Fund

#### Optimizing Delivery to REDD Country Participants

DRAFT March 13, 2010

*This note outlines two key recommendations for optimizing delivery of Readiness services to REDD Country Participants: a) increasing the number of delivery partners under the FCPF Readiness Fund and b) the FMT acting as information sharer and/or facilitator for REDD resources to ensure REDD countries and donors are both aware of potential sources of support and REDD activities requiring support.<sup>i</sup>*

*There are a number of REDD Country Participants where the World Bank is not best positioned to provide Readiness services, so the FMT is requesting the PC's authority to explore the possible modalities of piloting the provision of readiness preparation support and safeguard and fiduciary support under the FCPF Readiness Fund through delivery partners other than the World Bank in select countries.*

*Practical experience has shown that in many cases the current formulation grant level of US\$200,000 is not sufficient and it is likely that in many cases the US\$3.6 million preparation grant will also not be sufficient. In order to bridge some of the inevitable funding gaps, the FMT is proposing that it acts as information sharer and, if necessary, facilitator for REDD Readiness financing, thereby ensuring that REDD Country Participants are aware of potential sources of support and donors are aware of Readiness activities requiring financial support.*

#### Introduction

1. When the FCPF was established in 2008, multiple roles were envisaged for the World Bank in administering the Readiness Fund. According to the FCPF Charter (Article 14), the Bank fulfills the following roles:
  - a. Trustee receiving, holding, investing, disbursing and reporting on funds;
  - b. Secretariat of the Facility, performed by the Facility Management Team (FMT), which provides administrative services and manages the day-to-day operations of the Facility; and
  - c. 'Delivery partner', providing technical support to REDD Country Participants and supervising the Grant Agreements under the Readiness Fund and Emission Reductions Payment Agreements under the Carbon Fund.
2. In its first 20 months of operations, the FCPF has generated valuable experience with the initial country Readiness processes. At the same time, some limitations inherent to the current set-up of the FCPF have become apparent, including the following:
  - a. While the Bank is well-positioned to assist many REDD Country Participants, it is not currently able to operate effectively in some countries, while other delivery partners may have comparative advantages over the World Bank in these countries;

- b. Recognizing comparative advantages and developing complementarities among delivery partners based on these comparative advantages increases efficiency in providing Readiness services to REDD countries; and
- c. Early Readiness activities are broader than the writing of a Readiness Preparation Proposal (R-PP), and are likely to require more resources than the initially agreed formulation grant allocation of US\$200,000 per country.

3. The issue of piloting implementation through other partners was discussed at the Participants Committee meeting in October 2009 and the PC agreed through an additional decision to establish a working group to “explore options for improving readiness preparation support, in particular in those REDD Country Participants where the World Bank is not the best positioned to provide this support”. Due to unforeseen circumstances, this working group was not created.

### Readiness Services

4. Since the FCPF became operational in June 2008, 37 developing countries have been selected into the partnership, 35 of which have signed Participation Agreements, thereby becoming REDD Country Participants. Many of these are actively preparing, or have already prepared, R-PPs.<sup>ii</sup>

5. Once the country is selected into the FCPF and has signed its Participation Agreement, the FMT requests that a regional operations team of the Bank (“task team”) provide certain services to the REDD Country Participant on a budget covered by the Readiness Fund. Over time, these services may include the following elements:

- a. Readiness preparation support: The task team provides the REDD country with advice and feedback on elements of its R-PP and its Readiness Package prior to and following discussion with the Participants Committee and the Technical Advisory Panel, based on the Bank’s knowledge of the forest and related sectors, development practice, and early lessons from the FCPF and other REDD plus initiatives.
- b. Fiduciary and safeguard support: The task team ensures compliance of the readiness activities with the following main policies and procedures:
  - i. Social and environmental safeguards: The World Bank’s environmental and social safeguard policies are a cornerstone of its support to sustainable poverty reduction. The objective of these policies is to prevent and mitigate undue harm to people and their environment in the development process;<sup>iii</sup>
  - ii. Procurement: Pay proper attention to the principles of economy, efficiency, competition and transparency when procuring goods and services to formulate the R-PP and prepare the Readiness Package financed out of the proceeds of the FCPF grants;<sup>iv</sup> and
  - iii. Financial management: Ensure that the grant recipient country maintains a financial management system and prepares financial statements in accordance with accounting standards acceptable to the Bank, and in a manner adequate to reflect the operations, resources and expenditures related to the activities financed under the Grant Agreement.<sup>v</sup>

## Increasing the Number of Delivery partners

6. The arrangement that the World Bank serves as the sole delivery partner for the FCPF Readiness Fund offers the following advantages:
  - a. Consistency in standards across all grant recipient countries;
  - b. The Bank's standards are based on decades of development finance; and
  - c. The Bank provides all the necessary support functions to the Trustee of the FCPF (legal, accounting, auditing, etc.) in a self-contained environment.
7. However, given the extensive effort necessary to accomplish REDD Readiness at a global level, all the institutions with relevant expertise and financial capabilities should be mobilized in a coordinated fashion to be able to provide the assistance at the scale needed by REDD countries. The institutions should also coordinate amongst themselves.
8. The Bank is one among a number of development partners (UN agencies, multilateral development banks, bilaterals, NGOs, etc.) with special expertise and experience to deliver Readiness preparation services to REDD countries.
9. The FCPF was designed to be an inclusive partnership, in which all the key stakeholders come together to discuss REDD and play a role. It is therefore worth exploring if organizations other than the Bank could also provide readiness preparation support and fiduciary and safeguard support in select countries under the Readiness Fund.
10. Broadening the number of delivery partners for the FCPF Readiness Fund could offer the following main advantages:
  - a. Increase the FCPF's ability to provide the necessary, timely assistance to all REDD Country Participants selected into the partnership—including some less likely to be served otherwise. There are a number of REDD Country Participants where the World Bank, for a variety of reasons, is not currently best positioned to provide Readiness services; and
  - b. Utilize the comparative advantage of various partners, which have varying expertise, often available in limited quantities, that are widely in demand at the same time for REDD plus technical assistance.
11. Precedents exist for creating a multi-entity framework to catalyze international action to protect the global environment:
  - a. Under the Climate Investment Funds (CIFs), to which the Forest Investment Program (FIP) belongs, delivery partners include the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the World Bank Group (collectively, the Multilateral Development Banks or MDBs);<sup>vi</sup> and
  - b. In the case of the Global Environment Facility (GEF), agencies include the MDBs and UN organizations, in an attempt to harness these agencies' comparative advantages.<sup>vii</sup>
12. Including multiple organizations as delivery partners adds complexity in a partnership, including the difficulty of ensuring consistency in standards and procedures, but working solutions have emerged in the context of multilateral initiatives on environment and emergency situations, which might provide a basis to build on:

- a. In the case of the CIFs, each MDB follows its own policies and procedures in appraising and supervising operations. Programming, approval and supervision processes follow the MDB's policies and procedures, including the relevant MDB's own disclosure policy. However, there is a high degree of convergence among the policies and procedures of the various MDBs. MDBs meet at regular intervals to harmonize their policies and procedures and take stock of progress. The CIF Trust Fund Committees have approved, for example, a consensus approach to disclosure of information that is based on the common elements of the MDB policies.<sup>viii</sup> In the specific case of the FIP, the Design Document also contains guidelines for consultations with indigenous peoples and local communities, which will apply to all MDBs;
  - b. In the case of the GEF, the Council has defined "minimum fiduciary standards," which include safeguards, procurement, financial management, and accountability aspects. An independent report of progress made towards meeting these minimum standards in each of the ten agencies is available;<sup>ix</sup>
  - c. In the context of the UN-World Bank Partnership Framework for Crisis and Post-Crisis Situations, mechanisms were designed to facilitate the transfer of funds from one World Bank Group organization to a UN organization or vice versa for crisis and post-crisis situations to the World Bank, thereby reducing transaction costs and increasing impact. The mechanisms include a Fiduciary Principles Accord (FPA) and agreements for transferring resources from a World Bank Trust Fund to UN agencies, funds and programs or from a UN Trust Fund to the World Bank programs. The FPA covers the following: financial management principles; procurement policies and procedures; program design, implementation and monitoring; prohibition of fraud and corruption. Safeguards are not covered by the FPA.<sup>x</sup>
13. In the case of the FCPF Readiness Fund, urgent discussions with new potential delivery partners would be needed to adopt minimum standards for provision of readiness preparation, fiduciary, and safeguard support to ensure consistency in delivery across the Bank and other delivery partners.<sup>xi</sup> However, consistency and minimum standards does not mean harmonization. No attempt would be made to harmonize the policies and procedures of the various delivery partners (this would be a monumental task, with implications extending far beyond the FCPF and REDD).
14. In a new, expanded framework where several delivery partners provide Readiness assistance, coordination would occur in two ways:
- a. Proactive cooperation across REDD programs, including the FCPF, UN-REDD Programme, FIP, the Congo Basin Forest Fund, and other programs supporting REDD plus with funding from multilateral bilateral donors (AFD, AusAID, GEF, GTZ, USAID, etc.); and
  - b. National management of REDD assistance by REDD national steering committees, coordinating by means of a single national R-PP or equivalent integrating management and budget framework.
15. With regard to coordination of REDD activities, Norway and other countries have also requested the inclusion of a specifically worded resolution or additional decision for consideration by members and approval on a no-objection basis at the forthcoming PC5 meeting. Since the issue of coordination is such a fundamental part of the possible expansion

of delivery partners, this specific wording has therefore been included as part of the recommendations in this note under 'Other Recommendation'.

### **FMT Acts as Information Sharer and Facilitator**

16. The rapid enhancement of initial support for Readiness in REDD Country Participants that have signed a formulation grant agreement with the Bank with a view to supporting the formulation of the R-PP is one of the most timely and effective ways to increase Readiness support to these countries. The envelope for formulation grants is currently standardized at US\$200,000, which was based on early estimates.

17. Since that time, several countries have gained practical experience (13 such grants have been approved and/or signed and more are under preparation), and guidelines for R-PP formulation have been refined (e.g., additional requirements for MRV system design, environmental and social considerations, including consultations). In particular, an average SESA may cost around US\$500,000. Given that the SESA should begin in the formulation phase, including the stakeholder analysis and initial consultations (see FMT Note 2010-9), in many cases the current formulation grant level of US\$200,000 will not be sufficient.

18. Similarly, it is likely that in many cases the US\$3.6 million implementation grant will also not be sufficient.

19. At this stage of the Readiness Fund and taking into account the current funding limitations, the FMT believes that one way to bridge some of the inevitable funding gaps would be to act as information sharer and, if necessary, facilitator for REDD resources, thereby ensuring that REDD countries are aware of potential funding sources of REDD financing and donors are aware of REDD activities requiring financial support. This information gathering and resource facilitation role would be played in coordination with the secretariats of other initiatives to avoid duplication.

## **RECOMMENDATIONS**

### **Recommendations for Increasing the Number of Delivery Partners**

20. The FMT recommends that the PC authorize the FMT to explore the possible modalities of piloting the provision of readiness preparation support and safeguard and fiduciary support under the FCPF Readiness Fund through partners other than the World Bank in select countries.

21. We propose the following modalities but recognize that these require further investigation by the FMT and reporting back to the PC before approval by the PC:

- a. The delivery partners would follow their own operational policies and procedures in the process of providing readiness preparation support and safeguard and fiduciary support. However, minimum environmental and social standards would apply across all the countries regardless of which organization acted as the delivery partner, in order to avoid fragmentation. The FMT would work closely with the REDD Country Participants and the delivery partners to provide the necessary guidance and assistance and ensure that the standards are met; and
- b. As is the case for the World Bank, each delivery partner would be required to report to the PC on its work on readiness preparation support and fiduciary and safeguard support.

22. Specifically, the FMT would:
- a. Seek approval of the Board of Executive Directors of the World Bank for this piloting;
  - b. Subject to Board approval, explore arrangements with delivery partners other than the World Bank, including UN agencies and MDBs with capacity relevant to REDD Readiness. A specific focus would be:
    - i. The UN-REDD Programme or the organizations that compose it (FAO, UNDP and UNEP), given their current activities in the REDD readiness area, their existing capacity for REDD readiness preparation support, and the increasing alignment of approaches between the FCPF and the UN-REDD Programme;
    - ii. The MDBs participating in the FIP; and
    - iii. Bilateral donors and cooperation agencies.<sup>xii</sup>
  - c. Discuss such arrangements with the REDD Country Participants concerned and the Bank's operational units;
  - d. Once Board approval is obtained and an delivery partner is arranged and agreed by the relevant parties, cause the Trustee to enter into the necessary agreements to make a financial transfer from the Readiness Fund to the delivery partner, the amount of which would be equal to the sum of the grant to the REDD Country Participant and the costs projected to be incurred by the delivery partner for its activities in providing preparation support and supervising the grant. This sum should not exceed the cost of providing the same services through the World Bank; and
  - e. Report to the PC on the experiences and findings of the pilot phase, and make recommendations as to whether to formalize the arrangement of expanding the delivery partners of the Readiness Fund to organizations other than the World Bank through an amendment to the FCPF Charter.

**Recommendation for FMT Acting as Information Sharer and Facilitator for REDD resources**

23. The FMT recommends that the PC authorize the FMT to act temporarily as information sharer and, if necessary, facilitator for REDD resources, thereby ensuring that REDD countries are aware of potential funding sources of REDD financing and donors are aware of REDD activities requiring financial support. The FMT would report back to the PC in October 2010 on progress and implications.

**Other Recommendation (proposed by Norway)**

24. The PC requests the FMT to work with appropriate ongoing multilateral initiatives and institutions to study options for enhancing cooperation and seeking coherence in support of REDD plus countries efforts. At the PC6 meeting in June 2010, as possible, the FMT should report back to the PC with options, implications, and recommendations as appropriate.

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<sup>i</sup> REDD means REDD plus, as defined in the FCPF Charter.

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- <sup>ii</sup> Nine R-PPs will have been presented to the PC by March 2010. Annex 1 provides details.
- <sup>iii</sup> The Safeguards can be accessed at <http://go.worldbank.org/WTA1ODE7T0>. Please also see FMT Note 2010-9 on Strategic Environmental and Social Assessment.
- <sup>iv</sup> The Bank's Policies and Procedures on Procurement are accessible at <http://go.worldbank.org/YZVQ9VQ490>.
- <sup>v</sup> The Operational Policy on Financial Management is accessible at <http://go.worldbank.org/YHF8Y8UF30>.
- <sup>vi</sup> The CIFs are managed by the World Bank and implemented jointly with the Regional Development Banks (the AfDB, the ADB, the EBRD and the IDB). For more information on the CIFs, please visit <http://go.worldbank.org/58OVAGT860>.
- <sup>vii</sup> The ten GEF Agencies are UNDP, UNEP, the World Bank, AfDB, ADB, EBRD, IDB, IFAD, FAO and UNIDO (please see more details at [http://www.thegef.org/interior\\_right.aspx?id=104](http://www.thegef.org/interior_right.aspx?id=104)). For more information on the GEF Agencies' comparative advantage analysis, please see [http://thegef.org/uploadedFiles/Projects/Templates\\_and\\_Guidelines/GEF-C-31-5%20rev%201-June%2018-2007.pdf](http://thegef.org/uploadedFiles/Projects/Templates_and_Guidelines/GEF-C-31-5%20rev%201-June%2018-2007.pdf)
- <sup>viii</sup> See the Note on Disclosure of Documents prepared for purposes of the Climate Investment Funds, May 15, 2009 available at [http://siteresources.worldbank.org/INTCC/Resources/Note-on\\_disclosure\\_of\\_Documents\\_may\\_2009.pdf](http://siteresources.worldbank.org/INTCC/Resources/Note-on_disclosure_of_Documents_may_2009.pdf).
- <sup>ix</sup> Please more details on the minimum fiduciary standards at [http://thegef.org/uploadedFiles/Documents/Council\\_Documents\\_\(PDF\\_DOC\)/GEF\\_31/C.31.6%20Fiduciary%20Standards.pdf](http://thegef.org/uploadedFiles/Documents/Council_Documents_(PDF_DOC)/GEF_31/C.31.6%20Fiduciary%20Standards.pdf) and on the independent report on meeting these standards at [http://thegef.org/uploadedFiles/Documents/Council\\_Documents\\_\(PDF\\_DOC\)/GEF\\_35/C.35.5\\_Fiduciary\\_Standards.pdf](http://thegef.org/uploadedFiles/Documents/Council_Documents_(PDF_DOC)/GEF_35/C.35.5_Fiduciary_Standards.pdf)
- <sup>x</sup> See more information at <http://www.undg.org/index.cfm?P=1027> and <http://www.undg.org/docs/10260/Fiduciary-Principles-Accord.pdf>.
- <sup>xi</sup> This might, for example, entail the provision for a Strategic Environmental and Social Assessment (SESA) to be carried out during the readiness preparation phase, guidelines for which are provided separately (in FMT Note 2010-9).
- <sup>xii</sup> Given that the donors to the Readiness Fund are bilateral donors, it is assumed that they would not draw on the Fund's resources if they become delivery partners, but would instead bring bilateral resources to the country they support as part of their readiness support. These resources would be either additional to those of the Readiness Fund or in lieu of those of the Fund.