

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

FY15 Budget Status and FY16 Proposed Budget for the FCPF Carbon Fund

April 2015

This note is designed to (a) present the status of the FY15 budget and (b) present the proposed budget for FY16 of the Carbon Fund for approval by the Carbon Fund Participants.

1. The Budget Cycle

The timing for FCPF budgets – for both the Readiness Fund (RF) and Carbon Fund (CF) – are based on the World Bank fiscal year (July 1-June 30), with FY16 starting July 1, 2015. Per the Charter, budgets are approved annually. The FY15 Readiness Fund and Carbon Fund budgets were approved in June 2014. **The FY16 budget of the Carbon Fund is submitted and proposed for approval at CF12.**

The FCPF Carbon Fund budget is built around two core activity types. Those are Carbon Fund Administration and ERPA Costs.

- a. The **Fund Administration** work consists of functions related to the World Bank role as Trustee of the Carbon Fund, including:
 - Fund strategy and management, fundraising
 - Preparing budgets, business plans and longer term financial projections (sources and uses)
 - Legal guidance on Methodological Framework, General Conditions and Legal Agreements
 - Accounting, resource management, contracting, contributions management
 - Carbon Fund Meeting costs, including costs of organization and logistics
 - Preparation of Annual Report and semi-annual monitoring and reporting

- b. The **ERPA Costs** category contains the bulk of the operating budget as it supports the selection and development of ER Programs and costs of supervision of ERPAs. There are three main categories of ERPA costs envisaged as follows:

ERPA Costs – Selection & Development of ER Programs

- Support to CF Participants in the ER Program selection process
- Assistance to REDD Country Participants in preparing ER Programs
- Due diligence for World Bank operational policies and procedures (including social and environmental safeguards)

- Drafting of ERPA for the ER Program, based on general terms and pricing/valuation approaches agreed by the PC
- Development phase usually comes to an end upon signature of an ERPA (starting the next phase of supervision and implementation support); or in some cases, if an ERPA is not agreed, when the ER program is dropped from the portfolio

ERPA Costs – Supervision and Implementation Support

- Implementation support to assist REDD Country Participants in keeping ER programs on track
- Supervision activities to help ensure that the ER program complies with applicable World Bank operational policies and procedures as well as specific ERPA provisions

ERPA Costs – Carbon asset creation, monitoring, verification and issuance

- ‘Validation’ of ER program and systems in place for emissions reductions
- Support to REDD Country monitoring of ERs and preparation of monitoring reports
- Support to and costs of independent verifications of ERs
- Making payments and maintaining accounts for ERs delivered to the Tranche(s) and Participants of the Carbon Fund

2. Shared Costs

Upon the set-up of the FCPF an agreement on ‘Shared Costs’, that is costs of activities that cut across both the Readiness Fund and Carbon Fund, was agreed. The agreed split is that those costs are covered 65% by the Readiness Fund 35% by the Carbon Fund (per the FCPF Charter). Since the Carbon Fund was only in the early stages of development, it was agreed that the Shared Costs were only to be borne by the Carbon Fund from July 1, 2011. ‘Shared Costs’ have included in practice the activities paid out of the FCPF Secretariat and REDD Methodology Support functions.

The budget for these two cost categories, and hence for Shared Costs, is approved by the Participants Committee (PC). To ensure that costs are contained, an overall cap of \$12 million that can be charged to the Carbon Fund for Shared Costs over the lifetime of the Fund was also established (Approved by the PC through Resolution PC/8/2011/8).

3. Fund Contributions

The current capitalization of the fund is \$451.3 million.

Table 1 FCPF Carbon Fund Contributions as of March 31, 2015

FCPF Carbon Fund									
Donor Contributions as of Q3 of FY15 (in \$ thousands)									
Participant Name	Total	Outstanding*	FY15	FY14	FY13	FY12	FY11	FY10	FY09
Australia	18,393					5,658	12,735		
BP Technology Ventures	5,000						5,000		
Canada	5,015					5,015			
European Commission	6,709							362	6,347
France	5,000						5,000		
Germany	125,534	15,194	32,108	27,280	6,556	15,443	21,125	3,819	4,009
Norway	171,310				161,310				10,000
Switzerland	10,796					10,796			
The Nature Conservancy	5,000								5,000
United Kingdom	84,540	66,600					17,940		
United States of America	14,000				4,000		10,000		
Committed Funding	451,297	81,794	32,108	27,280	171,866	36,912	71,800	4,181	25,356
*Amounts may vary due to exchange rate fluctuations									
Exchange Rates on March 31, 2015	\$								
Euro	1.070								
GBP	1.48								

4. Common Costs

Common costs are the costs that are not specific to one Tranche i.e., they are to be borne jointly by the two Tranches. Since both Tranches have made decisions jointly to date, Common Costs to date include all costs to date and all FY16 budgeted costs. It was agreed at CF4 in Santa Marta, Colombia in June 2012 that Common Costs would be apportioned between the Tranches (and between the Participants) on a pro rata share based on signed commitments at First Closing (shortly before signing first ERPA). Current pro rata apportionments, based on contributions as at March 31, 2015, would be as follows:

I. Apportioning Common Costs

Tranche Commitments to date and current apportionments

Contributions to the FCPF Carbon Fund as of March 31, 2015			Contributions to the FCPF Carbon Fund as of March 31, 2015		
	US\$m	%age		US\$m	%age
Tranche A			Tranche B		
Australia	18.4	4.1%	Canada	5.0	1.1%
BP	5.0	1.1%	European Commission	6.7	1.5%
The Nature Conservancy	5.0	1.1%	France	5.0	1.1%
United States	14.0	3.1%	Germany	125.5	27.8%
Committed Funding	42.4		Norway	171.3	38.0%
			Switzerland	10.8	2.4%
Committed Funding plus Pledges	42.4	9.4%	United Kingdom	84.5	18.7%
			Committed Funding	408.8	90.6%
Total Committed	451.2				
Grand Total	451.2	100.0%			

Amounts may vary due to exchange rate fluctuations

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5. Approved FY15 Budget

The Carbon Fund Participants (CFPs) approved the following operating budget of \$6.1 million for FY15 (Resolution CFM/10/2014/4). Subsequently the PC approved the Shared Costs budget for the facility as a whole, which translated into a Shared Costs budget for the Carbon Fund for FY15 of just over \$1.0 million. The total Carbon Fund budget for FY15 was therefore \$7.2 million as shown in Table 1 below.

Table 1 FCPF Carbon Fund Overall FY15 Annual Budget (Operating Costs)

Carbon Fund Costs (\$000s)	FY15 Budget
Carbon Fund Admin	665
ERPA Costs – Selection & Development of ER Programs	
Carbon Fund TAP	120
Carbon Fund Country Advisory Support	637
Program Development - business dev	200
Program Development - enhanced ER-PIN/PDs	4,500
Sub-total	6,122
Shared Costs	1,041
Total Carbon Fund Costs	7,163

6. Total Expenses to Date

Below is an overview of costs of the Carbon Fund from inception to date, including costs not charged to the CFPs shown in the two top shaded rows.

Budget Line/Category of Costs (\$000s)	Pre-FY09	FY09	FY10	FY11	FY12	FY13	FY14	Estimate FY15	Total
Development Costs absorbed by WB	2,350								2,350
Shared Costs paid by the Readiness Fund		635	1,728	1,262					3,625
Shared Costs paid by the Carbon Fund		-	-	-	1,069	1,236	1,159	776	4,240
Carbon Fund Administration			183	366	470	652	626	713	3,010
ERPA Costs						229	273	1,043	1,545
Total			183	366	1,539	2,117	2,058	2,532	8,795

It is worth noting that:

- The World Bank paid \$2.35 million for FCPF development costs (from early design meetings in 2006 through June 2008)
- The Readiness Fund has waived and paid \$3.6 million to cover what would have been the 35% of Shared Costs for the Carbon Fund from FY09 to FY11
- Actual expenses forecast to be charged against the Carbon Fund from FY10 to FY15 are \$8.8 million, of which \$4.2 million are for shared costs

7. Forecast Spend for FY15

Final FY15 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY15 books not closing until June 30, 2015, the estimated expenditures are tentative.

Table 2 Estimated Spend for FY15

Carbon Fund Costs (\$000s)	FY15 Budget	FY15 Estimates	Underspend	Spend Rate
Carbon Fund Admin	665	713	(48)	107%
ERPA Costs – Selection & Development of ER Programs				
Carbon Fund TAP	120	7	113	6%
Carbon Fund Country Advisory Support	637	104	533	16%
Program Development - business dev	200	174	26	87%
Program Development - enhanced ER-PIN/PDs	4,500	757	3,743	17%
Sub-total	6,122	1,756	4,366	29%
Shared Costs	1,041	776	265	75%
Total Carbon Fund Costs	7,163	2,532	4,631	35%

8. Overspends and Underspends

The FY15 budget is estimated to show a 35% spend against the total allocated envelope once the final figures are available. This corresponds to an underspend of about \$4.6 million out of the total budget of \$7.2 million. The largest portion of the underspend (\$3.7 million) is for post ER-PIN program development (see below for rationale).

a. Carbon Fund Administration

Fund Administration costs are expected to be slightly over budget with a 107% spend. To meet growing needs of the Carbon Fund, more administrative staff time was needed than anticipated. In addition, legal costs for finalizing the General Conditions and negotiating LoIs with countries were greater than budgeted. These are the main contributing factors for the 7% overspend.

b. Carbon Fund TAP

Carbon Fund TAP costs were budgeted at \$120k but in the event no ER-PDs were presented for TAP review during FY15. Thus, little of the budget has been spent.

c. Carbon Fund Country Advisory Support

The budget for Country Advisory Support was \$637k, and was budgeted in the expectation that the FMT would be providing much support to ER-PD development during the year. In the event, the FMT has not provided the anticipated level of support as ER-PDs have not been developed as quickly as envisaged. There is likely to be an underspend in excess of \$500k.

d. ERPA Costs –Business Development (‘Seed Money’)

The CFPs agreed to set aside \$200k to help countries develop their ER-PINs for presentation to the Carbon Fund. It is estimated that just over \$174k (or 87%) will be spent in FY15, to assist in the development of ER-PINs presented to the CF during and shortly after the fiscal year (3 ER-PINs at CF11 and possibly 9 or 10 ER-PINs at CF13).

e. ERPA Costs – Enhanced ER-PINs/PDs

The budget of \$4.5 million was an estimated spend during FY15 from the \$650k allocations made to programs entering the Carbon Fund pipeline and signing a Letter of Intent (LoI). The budget was made up of the estimated unspent allocation to the five countries that were invited to join the CF Pipeline in FY14 plus five more \$650k allocations for countries that could be invited in FY15. Those FY14 invitees are Costa Rica, DRC, Ghana, Mexico and Nepal. The five additional \$650k allocations were intended for countries that were anticipated to present ER-PINs in FY15, to be approved on a case-by-case basis by CF Participants.

Of the countries selected into Carbon Fund pipeline, only those that sign a Letter of Intent (LoI) gain access to the \$650k allocations for ER-PD development. Currently, of the eleven countries selected into the pipeline of the Carbon Fund, only seven have signed LoIs, thus releasing the \$650k of ER-PD Development funds. Of the \$4.5 million budgeted for FY15, it is estimated that only about \$757k will be spent in FY15, an underspend of approximately \$3.7 million.

f. Shared Costs

As explained in section 2, Shared Costs are directly related to the Readiness Fund expenses in two key cross cutting areas: FCPF Secretariat and REDD Methodology Support costs. Since the Readiness Fund expenses are estimates at this time, the Shared Costs are also estimates and may change when the final FY15 expenses are recorded. The current estimate is that expenditure will be approximately \$265k below the budget of \$1.0 million.

9. FY16 Budget Proposal**Table 3 FY16 Proposed Budget by Activity**

Carbon Fund Costs (\$000s)	FY15 Budget	FY15 Estimates	FY16 Budget
Carbon Fund Admin	665	713	656
ERPA Costs – Selection & Development of ER Programs			
Carbon Fund TAP	120	7	591
Carbon Fund Country Advisory Support	637	104	1,220
Program Development - business dev	200	174	185
Program Development - enhanced ER-PIN/PDs	4,500	757	3,100
Sub-total	6,122	1,756	5,752
Shared Costs	1,041	776	800
Total Carbon Fund Costs	7,163	2,532	6,552

The proposed overall budget for FY16, excluding Shared Costs, is \$5.75 million, less than for FY15 but with the same focus on development of ER-PINs and Program Documents (ER-PDs). The FY16 proposed budget reflects the goal of assisting in the development of several ER-PDs by the end of 2016. With this in mind, growing cost categories in the budget are the Carbon Fund TAP, Country Advisory Support and Program Development budget for developing ER-PDs.

As shown in Table 3, the **Carbon Fund Administration** budget of \$656k reflects a small decrease compared with the forecast expenditure for the current FY of \$713k. This budget assumes two Carbon Fund meetings.

The work of the **Carbon Fund TAP** (Technical Advisory Panel) on the Methodological Framework, classified as REDD Methodology Support costs under the Readiness Fund, has formed part of the Shared Costs in previous years. However, FY16 Carbon Fund TAPs will focus on reviews of Programs, at Program Document stage, and are therefore budgeted wholly under the Carbon Fund. The budget of \$591k is based on a more robust review of ER-PDs combined with a TAP Calibration Workshop with the goal of standardizing the application and interpretation of the Methodological Framework for the preparation and review of ER-PDs. It assumes between 4-6 ER-PD reviews by the TAP as well as a TAP Calibration Workshop.

Country Advisory Support comprises FMT time and travel in providing support to countries developing their programs. It is becoming increasingly clear that they will need targeted FMT support in preparing their ER-PDs. This budget for the Country Advisory Support cost category in the amount of \$1.2m is intended to enable the provision of this support. The budget has been estimated on the basis of providing necessary support to the development and preparation of ten ER-PDs.

As the largest share of the proposed FY16 budget (\$3.1 million), the funds allocated for **Program Development - Enhanced ER-PINs/PDs** are designed to support the 11 REDD Countries currently in the CF pipeline. Working from the agreement that each country may avail itself of \$650k in support funds for the preparation of their ER-PD once selected into the CF

pipeline and that there are currently 11 countries in the CF pipeline; the budget requires an overall total of \$7.15 million (\$650k x 11). The budget for FY16 of \$3.1 million is an approximate amount based on the anticipated ER-PD Development funding needs for the current 11 countries in the pipeline.

Since allocations for potential new countries would not be made until October 2015 at CF13, and the funds would not flow until Lol signature, the decision to expand the pipeline beyond the current 11 countries does not materially affect the FY16 budget. It is important to remember that this budget is dependent on fixed allocations based on countries selected into the pipeline on a case-by-case basis by CF Participants.

The **Shared Costs** budget for FY16 for the Carbon Fund is dependent on approval by the PC of the Readiness Fund budget for FY16 in May. The budget shown in table 3 of \$800k is an estimate based on the latest Readiness Fund budget. This does not require approval at this Carbon Fund meeting but is provided for information.

10. Decision for the CF12 Meeting

The Carbon Fund Participants are asked to approve the proposed Carbon Fund budget for FY16 of \$5.75 million plus the CF portion of the Shared Costs to be approved by the PC.