

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

FY16 Budget Status and FY17 Proposed Budget for the FCPF Carbon Fund

June 2016

This note is designed to (a) present the status of the FY16 budget and (b) present the proposed budget for FY17 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 FY17 starting July 1, 2016. Per the Charter, budgets are approved annually. The FY17 Readiness Fund budget was approved in May 2016 at PC21. **The FY17 budget of the Carbon Fund is submitted and proposed for approval at CF14.**

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 commitments and pledges to the fund total approximately \$755 million.

Table 1 FCPF Carbon Fund Contributions as of June 15, 2016

FCPF Carbon Fund										
Donor Contributions as of (June 15, 2016) of FY16 (in \$ thousands)										
Participant Name	Total	Outstanding*	FY16	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	125,685	2,016	13,329	32,108	27,280	6,556	15,443	21,125	3,819	4,009
Norway	300,462	70,800	58,352			161,310				10,000
Switzerland	10,796						10,796			
The Nature Conservancy	5,000									5,000
United Kingdom	202,540	184,600						17,940		
United States of America	14,000					4,000		10,000		
Committed Funding	698,600	257,416	71,681	32,108	27,280	171,866	36,912	71,800	4,181	25,356
Germany	56,000	56,000								
Pledged Funding	56,000	56,000								
Committed and Pledged Funding	754,600	313,416	71,681	32,108	27,280	171,866	36,912	71,800	4,181	25,356

*Amounts may vary due to exchange rate fluctuations.

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 FY17 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 commitments and pledges as at June 15, 2016, would be as follows:

Table 2 Carbon Fund Pro Rata Apportionments

Participant Name	Total	%age
Tranche A		
Australia	18,393	2%
BP Technology Ventures	5,000	1%
The Nature Conservancy	5,000	1%
United States of America	14,000	2%
Tranche A Committed Funding	42,393	6%
Tranche B		
Canada	5,015	1%
European Commission	6,709	1%
France	5,000	1%
Germany	125,685	17%
Norway	300,462	40%
Switzerland	10,796	1%
United Kingdom	202,540	27%
Tranche B Committed Funding	656,207	87%
Tranche B Pledged Funding Germany	56,000	7%
Tranche B Committed and Pledged Funding	712,207	94%
Total Committed & Pledged Funding	754,600	100%

5. Approved FY16 Budget

The Carbon Fund Participants (CFPs) approved the following operating budget of \$5.8 million for FY16 (Resolution CFM/12/2015/2). 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 FY16 of \$943k. The total Carbon Fund budget for FY16 was therefore about \$6.7 million as shown in Table 3 below.

Table 3 FCPF Carbon Fund Overall FY16 Annual Budget (Operating Costs)

Carbon Fund Costs (\$000s)	FY16 Budget
Carbon Fund Admin	656
ERPA Costs – Selection & Development of ER Programs	
Carbon Fund TAP	591
Carbon Fund Country Advisory Support	1,220
Program Development - business dev	185
Program Development - enhanced ER-PIN/PDs	3,100
Sub-total	5,752
Shared Costs	943
Total Carbon Fund Costs	6,695

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.

Table 4 Expenses to Date

Budget Line/Category of Costs (\$000s)	Pre-FY09	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16 Estimate	FY17 Plan	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	821	734	1,148	6,167
Carbon Fund Administration			183	366	470	652	626	741	581	717	4,336
ERPA Costs						229	273	1,283	4,372	7,850	14,008
Total			183	366	1,539	2,117	2,058	2,846	5,687	9,716	24,511

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 FY17 are \$24.5 million, of which \$6.2 million are for shared costs

7. Forecast Spend for FY16

Final FY16 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY16 books not closing until June 30, 2016, the estimated expenditures are tentative.

Table 5 Estimated Spend for FY16

Carbon Fund Costs (\$000s)	FY16 Budget	FY16 Estimates	Underspend	Spend Rate
Carbon Fund Admin	656	581	75	89%
ERPA Costs – Selection & Development of ER Programs			-	
Carbon Fund TAP	591	564	27	95%
Carbon Fund Country Advisory Support	1,220	1,072	148	88%
Program Development - business dev	185	222	(37)	120%
Program Development - enhanced ER-PIN/PDs	3,100	2,514	586	81%
Sub-total	5,752	4,953	799	86%
Shared Costs	943	734	209	78%
Total Carbon Fund Costs	6,695	5,687	1,008	85%

8. Overspends and Underspends

The FY16 budget is estimated to show an 85% spend against the total allocated envelope once the final figures are available. This corresponds to an underspend of about \$1 million out of the

total budget of \$6.7 million. The largest portion of the underspend (\$586k) is for ER-PIN/ER-PD program development (see below for rationale).

a. Carbon Fund Administration

Fund Administration costs are expected to be slightly below budget with an 89% spend. This is explained by the centralization of some standard admin tasks as the FMT was no longer billed for some accounting, resource management, and legal costs due to a change in World Bank policy.

b. Carbon Fund TAP

Total Carbon Fund TAP costs are estimated at 95% of budget but would have been higher than the budget due to the large number of ER-PDs in the pipeline (6 are under review as of the drafting of this note) but this net increase was offset by a TAP Calibration workshop that was delayed.

c. Carbon Fund Country Advisory Support

The budget for Country Advisory Support was \$1.2 million, and was well utilized as the FMT provided support to ER-PD development during the year. The FMT has provided the anticipated level of support as 18 countries work to develop ER-PDs. The estimated spend is 95% of budget.

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

The CFPs agreed to set aside an additional \$185k to help countries develop their ER-PINs for presentation to the Carbon Fund. It is estimated that just over \$222k (or 120%) will be spent in FY16, to assist in the development of ER-PINs presented to the CF during the fiscal year (9 ER-PINs at CF13 and 2 ER-PINs at CF14). This large number of ER-PINs was not envisaged at the time of the budget preparation, which explains the overspend.

e. ERPA Costs – Enhanced ER-PINs/PDs

The budget of \$3.1 million was an estimated spend during FY16 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 FY15 plus portions of five more \$650k allocations for countries that could be invited in FY16. Those FY15 invitees are Costa Rica, DRC, Ghana, Mexico and Nepal. The additional allocations were intended to cover portions of ER-PD development for countries that were anticipated to present ER-PINs in FY16, 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 18 countries selected into the pipeline of the Carbon Fund, 13 have signed LoIs, thus releasing the \$650k of ER-PD Development funds. Of the \$3.1 million budgeted for FY16, it is estimated that \$2.5 million will be spent in FY16, an underspend of approximately \$800k.

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 FY16 expenses are recorded. The current estimate is that expenditure will be approximately \$734k - roughly \$200k below the budget of \$940k.

9. FY17 Budget Proposal

Table 6 FY17 Proposed Budget by Activity

Carbon Fund Costs (\$000s)	FY16 Budget	FY16 Estimates	FY17 Budget
Carbon Fund Admin	656	581	717
ERPA Costs – Selection & Development of ER Programs			
Carbon Fund TAP	591	564	646
Carbon Fund Country Advisory Support	1,220	1,072	2,128
Program Development - business dev	185	222	-
Program Development - enhanced ER-PIN/PDs	3,100	2,514	5,077
Sub-total	5,752	4,953	8,568
Shared Costs	943	734	1,148
Total Carbon Fund Costs	6,695	5,687	9,716

The proposed overall budget for FY17, excluding Shared Costs, is \$8.6 million, greater than for FY16 but with the same clear focus on development of ER-Program Documents (ER-PDs). The FY17 proposed budget reflects the goal of assisting in the development of 18 ER-PDs by the end of 2017. All cost categories are growing, most of all the Program Development budget for developing ER-PDs.

As shown in Table 6, the **Carbon Fund Administration** budget of \$717k reflects a small increase when compared with the forecast expenditure for the current FY of \$581k. As the countries come forward to present ER-PDs they bring along delegations. As a result the cost to convene meetings increases. This budget assumes two Carbon Fund meetings, both with numerous ER-PDs for presentation.

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, FY17 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 \$646k is based on reviews of an estimated 9 ER-PDs, combined with a TAP Calibration Workshop with the goal of continuing to standardize the application and interpretation of the Methodological Framework.

Country Advisory Support comprises FMT time and travel in providing support to countries developing their programs. It is becoming increasingly clear that the 18 REDD Countries in the pipeline will continue to need targeted FMT support in preparing their ER-PDs. This budget for the Country Advisory Support cost category in the amount of \$2.1 million is intended to enable the provision of this support. In addition to providing necessary support to the development and preparation of an estimated 9 ER-PDs, the budget also includes Knowledge Sharing on extracting valuable MRV and Reference Level lessons learned from ER-PDs, as well as support on REDD Cost Assessment activities.

As the largest share of the proposed FY17 budget (\$5.1 million), the funds allocated for **Program Development - Enhanced ER-PINs/PDs** are designed to support the 13 REDD Countries currently in the CF pipeline and 5 more invited to sign LoIs. The budget is based on 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 signing an LoI and that there will likely be 18 countries in the CF pipeline in FY17. The budget for FY17 of \$5.1 million is an approximate amount based on the anticipated ER-PD Development funding needs for the current 13 countries in the pipeline as well as amounts for the 5 more that may sign LoIs in the near future.

The decision to expand the pipeline beyond the current 18 countries does not materially affect the FY17 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 **FY17 Shared Costs** budget of \$1.1 million for the Carbon Fund was approved in May 2016 by the PC as part of the approval of the FY17 budget for the Readiness Fund. This does not require approval at this Carbon Fund meeting but is provided for information.

10. Decision for the CF14 Meeting

The Carbon Fund Participants are asked to approve the proposed Carbon Fund budget for FY17 of \$8.57 million, and to note the CF portion of the Shared Costs of \$1.1 million.