

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

FY17 Budget Status and FY18 Proposed Budget for the FCPF Carbon Fund

June 2017

This note is designed to (a) present the status of the FY17 budget and (b) present the proposed budget for FY18 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 FY18 starting July 1, 2017. Per the Charter, budgets are approved annually. The FY18 Readiness Fund budget was approved in March 2017 at PC23. **The FY18 budget of the Carbon Fund is submitted and proposed for approval at CF16.**

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, including TAP costs
- 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 \$734 million.

Table 1 FCPF Carbon Fund Contributions as of March 31, 2017

FCPF Carbon Fund											
Donor Contributions as of March 31 (in \$ thousands)											
Participant Name	Total	Outstanding*	FY17	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	5,114				114				5,000		
Germany	178,440		54,771	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	180,440	162,500							17,940		
United States of America	18,500		4,500				4,000		10,000		
Committed Funding	733,869	233,300	59,271	71,681	32,222	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 FY18 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, 2017, would be as follows:

Table 2 Carbon Fund Pro Rata Apportionments (US\$000)

Participant Name	Total (\$000)	%age
Tranche A		
Australia	18,393	2.5%
BP Technology Ventures	5,000	0.7%
The Nature Conservancy	5,000	0.7%
United States of America	18,500	2.5%
Tranche A Committed Funding	46,893	6.4%
Canada	5,015	0.7%
European Commission	6,709	0.9%
France	5,114	0.7%
Germany	178,440	24.3%
Norway	300,462	40.9%
Switzerland	10,796	1.5%
United Kingdom	180,440	24.6%
Tranche B Committed Funding	686,976	93.6%
Total Committed Funding	733,869	100%

5. Approved FY17 Budget

The Carbon Fund Participants (CFPs) approved the following operating budget of \$8.6 million for FY17 (Resolution CFM/14/2016/5). 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 FY17 of \$1.1m. The total Carbon Fund budget for FY17 was therefore about \$9.7 million as shown in Table 3 below.

Table 3 FCPF Carbon Fund Overall FY17 Annual Budget (Operating Costs in US\$000)

Carbon Fund Costs (\$000s)	FY17 Budget
Carbon Fund Admin	717
ERPA Costs – Selection & Development of ER Programs	
Carbon Fund TAP	646
Carbon Fund Country Advisory Support	2,128
Program Development - business dev	-
Program Development - enhanced ER-PIN/PDs	5,077
Sub-total	8,568
Shared Costs	1,148
Total Carbon Fund Costs	9,716

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 (in US\$000)

Budget Line/Category of Costs (\$000s)	Pre-FY09	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17 Estimate	FY18 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	797	1,130	1,183	7,395
Carbon Fund Administration			183	366	470	652	626	741	555	614	687	4,894
ERPA Costs - Selection												
Carbon Fund TAP									440	433	674	1,547
ERPA Costs - Development												
Carbon Fund Country Advisory									1,290	1,673	1,820	4,783
ER-PD Development						229	273	1,283	2,350	2,421	4,142	10,698
ERPA Costs - Supervision												
Additional Activity on Private Sector Engagement											600	600
Total			183	366	1,539	2,117	2,058	2,846	5,432	6,271	9,419	30,230

It is worth nothing 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 FY18 are \$30.2 million, of which \$7.4 million are for shared costs

7. Forecast Spend for FY17

Final FY17 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY17 books not closing until June 30, 2017, the estimated expenditures are tentative.

Table 5 Estimated Spend for FY17

Carbon Fund Costs (\$000s)	FY17 Budget	FY17 Estimate	Underspend	Spend Rate
Carbon Fund Admin	717	614	103	86%
ERPA Costs – Selection & Development of ER Programs				
Carbon Fund TAP	646	433	212	67%
Carbon Fund Country Advisory Support	2,128	1,673	455	79%
Program Development - enhanced ER-PIN/PDs	5,077	2,421	2,656	48%
Sub-total	8,568	5,141	3,427	60%
Shared Costs	1,148	1,130	18	98%
Total Carbon Fund Costs	9,716	6,271	3,445	65%

8. Overspends and Underspends

The FY17 budget is estimated to show a 65% spend against the total allocated envelope once the final figures are available. However, when we isolate the rest of the budget, excluding the ER-PD development funds that are dependent on CFP approval, the spend rate is anticipated to be 83%.

This underspend of about \$3.4 million out of the total budget of \$9.7 million is mostly accounted for (\$2.7m) in the area of 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 86% spend. This is explained by the late date of CF16 that pushes the majority of those meeting expenses into FY18.

b. Carbon Fund TAP

Total Carbon Fund TAP costs are estimated at 67% of budget due to a few ER-PDs in the pipeline that did not reach the complete review stage as anticipated (Mozambique and Nepal are under initial review as of the drafting of this note). Also covered under this activity, a fruitful TAP Calibration workshop took place in April 2017 where 30 participants exchanged lessons learned on ER-PD development. Because of the usefulness of this event, another one is planned for FY18.

c. Carbon Fund Country Advisory Support

The budget for Country Advisory Support was \$2.1 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 19 countries work to develop ER-PDs.

The estimated spend is 79% of budget. The ability to combine trips brought the overall cost down as more countries were served in a coordinated fashion.

d. ERPA Costs – Enhanced ER-PDs

The budget of \$5.1 million was an estimated spend during FY17 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 countries that were invited to join the CF Pipeline in FY15 and 16. The additional allocations were intended to cover portions of ER-PD development for countries that were anticipated to sign LoIs and access funds in FY17 (Cote D'Ivoire, Dominican Republic, Fiji, Guatemala, Indonesia, and Lao PDR) to be approved on a case-by-case basis by CF Participants.

Of the countries selected into Carbon Fund pipeline, only those that sign an LoI gain access to the \$650k allocations for ER-PD development. Currently, of the 19 countries invited into the pipeline of the Carbon Fund, 18 have signed LoIs, thus releasing the \$650k of ER-PD Development funds. Of the \$5.1 million budgeted for FY17, it is estimated that \$2.4 million will be spent in FY17, an underspend of approximately \$2.7m.

e. 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 FY17 expenses are recorded. The current estimate is that expenditure will be approximately \$1.13 m - roughly \$18k below the budget of \$1.15m.

9. Sources and Uses as of March 31, 2017

The overall financial status of the fund is healthy. As shown in Table 6, of the total contributions of \$733.9 million, about \$680.5 million are available for the purchase of ERs. Estimated costs of the Fund over its lifetime are \$53.4 million, or about 7%. If 13 programs are developed, the average ER Program could be about \$52.3 million.

Table 6 State of the Fund - March 31, 2017

Carbon Fund Sources and Uses Summary (\$m)	
	Current Situation
Sources (\$m)	733.9
Number of Lols (#)	19
Number of ER Programs (#)	13
Uses	
Costs over Fund Lifetime	
Fixed Costs (FY10 to FY26)	22.7
ER Program Costs	30.7
Total Costs	53.40
Available for Purchase of ERs	680.5
Average ER Program	52.3

10. FY18 Budget Proposal

Table 7 FY18 Proposed Budget by Activity

Carbon Fund Costs (\$000s)	FY17 Budget	FY17 Estimate	FY18 Proposed Budget
Carbon Fund Admin	717	614	687
ERPA Costs – Selection & Development of ER Programs			
Carbon Fund TAP	646	433	674
Carbon Fund Country Advisory Support	2,128	1,673	1,820
Program Development - enhanced ER-PIN/PDs	5,077	2,421	4,142
ERPA Costs – Supervision and Implementation Support			
Supervision			313
Additional Activity on Private Sector Engagement			
Sub-total	8,568	5,141	8,236
Shared Costs	1,148	1,130	1,183
Total Carbon Fund Costs	9,716	6,271	9,419

The proposed overall budget for FY18, excluding Shared Costs, is \$8.2 million, less than for FY17 but with the same clear focus on development of ER-Program Documents (ER-PDs). The FY18 proposed budget reflects the goal of assisting in the development of 19 ER-PDs by the end of 2018.

As shown in Table 7, the **Carbon Fund Administration** budget of \$687k reflects a small increase when compared with the forecast expenditure for the current FY of \$614k. 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 ER-PDs for presentation. In addition, the late CF16 meeting in FY17 pushes costs into FY18.

ERPA Costs – Selection and Development of ER Programs

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, starting in FY17 Carbon Fund TAPs focused on reviews of Programs, at Program Document stage, and are therefore budgeted wholly under the Carbon Fund going forward. The budget of \$674k is based on reviews of an estimated 6 ER-PDs, combined with another 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 19 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 \$1.8 million is intended to enable the provision of this support. In addition to providing necessary support to the development and preparation of an estimated 6 ER-PDs, the budget covers support on REDD Cost Assessment activities and some funding for a Private Sector Specialist.

As the largest share of the proposed FY18 budget (\$4.1 million), the funds allocated for **Program Development - Enhanced ER-PINs/PDs** are designed to support the 19 REDD Countries currently in the CF pipeline. 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 Lol and that there will likely be 19 countries in the CF pipeline in FY18. The budget for FY18 of \$4.1 million is an approximate amount based on the anticipated ER-PD Development funding needs for the current 18 countries in the pipeline as well as amounts for the 1 more that may sign an Lol in the near future.

ERPA Costs – Supervision of ER Programs

As countries get closer to signing ERPAs, the teams must plan for proper oversight of those arrangements. Because it is anticipated that 2 or 3 countries will reach this milestone in FY18 (Chile, Costa Rica, and DRC), funds have been set aside to cover the work of the **supervision activities** to help ensure that the ER program complies with applicable World Bank operational

policies and procedures as well as specific ERPA provisions. For FY18, \$313k have been budgeted.

Proposed Additional Activity on Private Sector Engagement

A desire for an increased presence to promote Private Sector Engagement in the FCPF came out in the Second Evaluation of the FCPF. FMT Note CFM-2017-2 discusses the concept in greater depth. In response, a \$600k request for the following (summarized) steps are proposed:

- Provide increased travel support for the Private Sector Observer to attend Carbon Fund and PC meetings, and to conduct workshops.
- Explore concrete opportunities for regional or country-specific workshops, public-private dialogues on relevant program design issues, and other venues for linking the membership and activities of, as examples, TFA, the Commodities/Jurisdiction Approach, IDH (Sustainable Trade Initiative), and UNDP Green Commodities Program with the REDD+ programs under development.

The **FY18 Shared Costs** budget of \$1.2 million for the Carbon Fund was approved in March 2017 by the PC as part of the approval of the FY18 budget for the Readiness Fund. This does not require approval at this Carbon Fund meeting but is provided for information.

11. Decision for the CF16 Meeting

The Carbon Fund Participants are asked to approve the proposed Carbon Fund budget for FY18 of \$8.2 million, including the proposed Additional Activity on Private Sector Engagement, and to note the CF portion of the Shared Costs of \$1.2 million.