

Forest Carbon Partnership Facility (FCPF)

Readiness Fund

FY18 Proposed Budget for the FCPF Readiness Fund

March 2017

This note is designed to present the proposed budget for FY18 of the Readiness Fund for approval by the Participants Committee.

1. The Budget Cycle and Expenditure Categories

The timing for FCPF budgets – for both the Readiness Fund (RF) and Carbon Fund (CF) – is 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 FY17 Readiness Fund and Carbon Fund budgets were approved in May and June 2016, respectively. **The FY18 budget of the Readiness Fund is submitted and proposed for approval in this meeting of the PC, PC23.**

The FCPF budget is built around five core activity types. Those are: Country Implementation Support; Country Advisory Services; REDD Methodology Support; the FCPF Secretariat; and Fund Administration. These activities fall into two groupings: Services to REDD Countries, and Secretariat and Trustee Function.

a. Services to REDD Countries: Country Implementation Support, Country Advisory Services, and REDD Methodology Support

The work of the implementing agency or delivery partner falls under **Country Implementation Support**. This covers the direct implementation support, including technical assistance, from Delivery Partners (World Bank, IDB and UNDP). This includes the key role of grant supervision and country level review, related to environmental and social due diligence, procurement and financial management policies and procedures of the Delivery Partners and the Common Approach to Environmental and Social Safeguards. With more countries having signed Readiness Preparation Grants and UNDP and the Inter-American Development Bank being active as Delivery Partners, this category of expenditures comprises a substantial portion of the total budget.

Also within Services to REDD Countries, **Country Advisory Services** consist of FCPF team coordination of, and feedback on Mid Term Reviews and R-Packages. Some of the work of providing guidance on FCPF social and environmental due diligence (SESA guidelines, etc.) also falls under this category. Sharing cross-country experiences, developing and sharing guidance (e.g., social inclusion) with individual REDD Country Participants is another key component.

Finally, **REDD Methodology Support**, rounds out the support to REDD Countries with activities such as the development of program cost assessment tools, other technical training and support tools, the implementation of the Methodological Framework, and Technical Advisory Panel (TAP) reviews of R-Packages. Other key responsibilities include the liaison with UN-REDD and international REDD+ programs (FIP, CIFs), as well as analysis on key REDD+ topics and lessons learned (e.g., MRV, Reference Levels, Registries, and Gender).

b. Secretariat and Trustee Function

The Secretariat and Trustee Function consists of two key areas: The **FCPF Secretariat** and the **Readiness Fund Administration**.

The overall program management and activities related to maintaining partnerships among the many stakeholders of the FCPF, the organization of the Annual Meeting and 2 PC meetings per year falls under **FCPF Secretariat** costs. Due to evolving needs of the fund, a larger knowledge management (KM) and sharing program is also housed within the Secretariat, closely coordinated by the KM and Communications team. In addition, FCPF Secretariat costs also cover travel and expenses of REDD Country Participants and Observers in meetings, website management, communications, knowledge management activities and translation services.

The **Readiness Fund Administration** work consists of functions related to the World Bank role as Trustee of the Readiness Fund, including the preparation of budgets, business plans and financial projections. This includes development of long term sources and uses of funds as well as the preparation of the FCPF Annual Report. A stronger and more systematic portfolio management component is also included this category. The aim is to better identify and respond to barriers to country progress at the portfolio level. Other key tasks such as, managing the operating budget throughout the fiscal year, contracting, reporting to partners and stakeholders and contributions management comprise fund administration. Finally, the tracking and reporting of the Facility wide M&E framework is also undertaken within the fund administration role.

2. Shared Costs

At the set-up of the FCPF an arrangement 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 (Approved by the PC through Resolution PC/8/2011/8) was also established.

3. Fund Contributions

The current capitalization of the Readiness Fund is \$368.8 million as shown below.

Table 1 FCPF Readiness Fund Donor Contributions as of March 9, 2017 (US\$ thousands)

FCPF Readiness Fund Donor Contributions as of March 9, 2017 (in \$ thousands)											
Participant Name	Total	Outstanding*	FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10	FY09
Australia	23,892							6,330	7,997		9,565
Canada	41,360								41,360		
Denmark	5,800									5,800	
European Commission	5,112	1,060				1,364		2,688			
Finland	23,196				3,230		5,261	5,749			8,956
France	10,340							5,136		592	4,612
Germany	76,766				23,784	13,913	13,113		25,956		
Italy	5,000								5,000		
Japan	14,000							4,000		5,000	5,000
Netherlands	20,270						7,635	7,635			5,000
Norway	113,032	41,736	2,370			38,727			8,801	16,398	5,000
Spain	7,048										7,048
Switzerland	8,214										8,214
United Kingdom	5,766								5,766		
United States of America	9,000						4,000			4,500	500
Committed Funding	368,797	42,796	2,370		27,014	54,004	30,009	31,538	94,880	32,290	53,895

*Amounts may vary due to exchange rate fluctuations.

4. Approved FY17 Budget

The FMT constructed a budget based on its forecasted work program and estimated country support needs. After reviewing the FY17 proposed budget, the PC approved the following operating budget.

Table 2 FCPF Readiness Fund Overall FY17 Annual Budget (Operating Costs)

Overall Budget (\$000s)	FY17 Budget
Readiness Trust Fund Administration	165
FCPF Secretariat	1,893
REDD Methodology Support	1,386
Country Advisory Services	1,508
Sub-total	4,952
Country Implementation Support	3,645
Sub-total	8,596
IP and CSO Program (Program Admin, Other (travel, etc))	285
Total Readiness Fund (including Carbon Fund Shared Costs)	8,881

Table 3 Share of the FY17 Budgeted Costs between Readiness Fund and the Carbon Fund

Overall Budget shared between funds (\$000s)	FY17 Proposal
Readiness Fund	7,734
Carbon Fund	1,147
Total	8,881

5. Estimated Spend for FY17

This FMT Note on the budget has traditionally included an estimated spend for the current fiscal year. However, the PC meeting this year is significantly earlier than in previous years and it is difficult to provide even tentative figures for expenditure forecasts this early in the year. The FMT closely monitors spending throughout the fiscal year and there is no reason to adjust the current budget for FY17. Final FY17 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA).

6. Long Term Sources and Uses

As shown in Table 4, \$256.5 million of the total \$368.8 million in committed funding is allocated for Grants to REDD Countries and to the existing IP and CSO Capacity Building Program. \$88.9 million is allocated to cover Administrative, Operations and Country Support activities over the lifetime of the fund from inception in 2008 until closing. This leaves \$34.5 million in reserve, with a proposed plan to allocate these funds (further explained in FMT Note 2017-1, Decisions on Allocations of Additional Funding). The proposed budget for FY18 is included in the FY17-21 Projected costs for Administrative, Operations and Country Support activities.

Table 4 Summary of Long Term Sources and Uses of Readiness Funding

Summary of Long Term Sources and Uses of Readiness Funding (in \$ million, as of March 14, 2017)	
Description	Totals (\$m)
Sources of funds	
Committed Funding	368.8
Less 15% discount applied to outstanding contributions that are in a currency other than US dollars, the holding currency of the fund (World Bank policy)	(6.4)
Investment income to date	17.5
Total Available Funding	379.9
Uses of funds	
Grant Allocations	
Signed grants to REDD Countries (commitments)	199.0
Allocations to REDD Countries (not yet signed)	54.5
Allocations to IP/CSO Capacity Building Program	3.0
Total Grant Allocations	256.5
Administrative, Operations, and Country Support costs over lifetime of fund	
FY09-16 Actual costs	53.7
FY17-21 Projected costs	33.2
Reserve for Delivery Partner capacity for dispute resolution	2.0
Total Administrative, Operations, and Country Support costs over lifetime of fund	88.9
Total Uses of Funds	345.4
Estimated Reserve: Total Available Funding less Total Uses	34.5

7. FY18 Budget Proposal

Table 5 FY18 Proposed Budget by Activity

Overall Budget (\$000s)	FY17 Budget	FY18 Proposal
Readiness Trust Fund Administration	165	224
FCPF Secretariat	1,893	2,263
REDD Methodology Support	1,386	1,117
Country Advisory Services	1,508	1,692
Sub-total	4,952	5,297
Country Implementation Support	3,645	5,135
Sub-total	8,596	10,432
IP and CSO Program (Program Admin, Other (travel, etc))	285	300
Total Readiness Fund (including Carbon Fund Shared Costs)	8,881	10,732

The overall budget request for FY18 of \$10.7 million is approximately \$1.8 million more than the equivalent in FY17 of \$8.9 million. This increase is mainly due to the increase in Country Implementation Support by almost \$1.5 million. This increase reflects the increasing number of countries expected to be implementing initial Readiness preparation grants (\$3.8 million) and additional funding grants (\$5 million) and the related support required from Delivery Partners. Part of the increase in the budget is also due to a more robust Knowledge, Learning and Communications component (within Secretariat) planned for FY18. The continued focus on REDD country support is reflected in the budget with the bulk of the proposed budget (64%) for the areas that provide direct support to the REDD Countries - Country Advisory Services and Country Implementation Support.

As seen in Table 5, the **Readiness Trust Fund Administration** budget at \$224k is slightly higher than the FY17 budget. This is due to increased human resources being dedicated to the stronger portfolio management component to improve the ability to identify and to respond to barriers to country progress towards Readiness.

The **Secretariat** function is budgeted to increase to \$2.3 million, mainly as a result of the increased Knowledge, Learning and Communications component, which responds to an extended scope of activities as per the new Communications and Knowledge Strategy 2017-2020 (see FMT Note 2017-3). Among other activities planned for FY18 are: i) an increased budget for South-South Knowledge Exchanges (SSKE), including subregional SSKEs on ER Program development, on-demand study tours based on country needs, and a Global Knowledge Exchange Forum (\$150k) on land tenure assessments, benefit sharing arrangements, grievance redress mechanisms, social and environmental risk management, transfer of ER titles as well as cross-cutting issues such as stakeholder engagement, gender and poverty reduction, ii) budget for a revamp of the FCPF website to enhance the overall user experience, expand media integration, simplify navigation and improve back-end information management, and iii) increase the production of visual and multi-media content for social media and other communication channels.

REDD Methodology, as another of the activities closest to countries, will have a slightly lower budget allocation than the FY17 request at approximately \$1.1 million. The budget here includes continued funding for the work on Gender Inclusion in Forests and Landscapes (\$300k), as well as a budget of \$100k to support a dedicated workshop for the Central Africa IPs network (REPALEAC), as part of

targeted stakeholder engagement by the FCPF. There is an overall decrease however due to other activities that will be completed in FY17.

Country Advisory Services, the FMT work closest to the REDD countries, with a budget of \$1.7 million, is a relatively steady budget request for FY18 due to a continued focus on country support to the 45 active REDD Countries.

Under **Country Implementation Support**, budgeted at \$5.1 million for FY18, the work of the Delivery Partners (World Bank, UNDP and IDB) in providing direct implementation support, including technical assistance, to REDD Countries, will be the largest single share of the FY18 budget proposal. Within that expense category is \$2.2 million in support funds to cover transfers to IDB and UNDP, respectively, as transfers are expected to be made for support to countries to implement two initial preparation grants and three additional funding grants anticipated to be signed in FY18. It is important to note that the budget for Country Implementation Support is solely made up of the previously agreed allocations per country for Delivery Partner support i.e., \$650k for initial preparation grants and \$300k for additional funding grants.

Finally, there is a small budget of \$300k to cover program administration costs for the IP and CSO Capacity Building Program and to support bringing key IP/CSO stakeholders to relevant meetings.

8. Shared Costs of the Proposed FY18 Budget

Table 9 Proposed Shared Costs FY18

Overall Budget shared between funds (\$000s)	FY17 Budget	FY18 Proposal
Readiness Fund	7,734	9,549
Carbon Fund	1,148	1,183
Total	8,882	10,732

9. Decision at PC23

The Participants Committee is asked to approve the proposed budget for FY18 of \$10.7 million.