

## Forest Carbon Partnership Facility (FCPF)

### Decisions on Allocations of Available Funding in the Readiness Fund

March, 2017

*This FMT Note is intended to facilitate a decision by the Participants Committee at PC23 in March 2017 regarding allocations of available funding in the Readiness Fund.*

#### 1. Background

Currently available funding in the Readiness Fund of the Forest Carbon Partnership Facility (FCPF) is almost wholly allocated. Decisions need to be taken at PC23 regarding allocations of remaining funds.

The FMT have regularly presented tables on the Sources and Uses of Readiness Funding indicating the limitations of available funding, particularly with regard to the limited number of REDD Countries to whom additional funding could be made available. The last presentation on this subject was at PC22, when the FMT indicated that future funding requests were likely to exceed available funding during 2017 (see [PC22 Presentation on Available Funding](#)).

#### 2. Summary of FMT Proposals for approval by PC

- i) allocate grants totaling \$32 million to the seven countries requesting additional funds (subject to them meeting all criteria), three through virtual review and four at this PC meeting;
- ii) reduce the \$2 million dispute resolution reserve to \$1 million;
- iii) allocate additional \$5 million for grants under the IP and CSO Capacity Building Program, subject to availability of resources;
- iv) impose deadlines on signing of grants, after which allocations become null and void and funds previously allocated can be reallocated by the PC. This voiding of allocations would be unless the PC decides otherwise.

#### 3. Summary of other proposed actions

- i) FMT to work with Donor Participants to receive payment of unpaid contributions as soon as possible;
- ii) FMT recognizes the increasing importance of rigorous portfolio monitoring as the fund nears its termination date;
- iii) as part of its portfolio monitoring, the FMT will take an active role in decisions on whether to extend grant closing dates, and will take into account alternative options for disbursing funds by the end of the term of the fund.

#### 4. Current Funding Status of the Readiness Fund

The latest Summary of Long Term Sources and Uses of Readiness Funding is shown in Table 1 below. Information has been updated as of 14 March, 2017. Each element of the table is described below the table.

Table 1 – 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)	
<b>Sources of funds</b>		
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	
<b>Total Available Funding</b>		<b>379.9</b>
<b>Uses of funds</b>		
<b>Grant Allocations</b>		
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	
<b>Total Grant Allocations</b>		<b>256.5</b>
<b>Administrative, Operations, and Country Support costs over lifetime of fund</b>		
FY09-16 Actual costs	53.7	
FY17-21 Projected costs	33.2	
Reserve for Delivery Partner capacity for dispute resolution	2.0	
<b>Total Administrative, Operations, and Country Support costs over lifetime of fund</b>		<b>88.9</b>
<b>Total Uses of Funds</b>		<b>345.4</b>
<b>Estimated Reserve: Total Available Funding less Total Uses</b>		<b>34.5</b>

#### 5. Sources of Funds

##### 5.1 Committed Funding

Signed Participation Agreements with Donor Participants of the Readiness Fund amount to \$368.8 million (see Table 2 below).

##### 5.2 Discount for Receivables in Foreign Currency

Of this committed funding, there is an outstanding amount due from Donor Participants of \$42.8 million (see Table 2 below). To help avoid an over-commitment of grants against funding due to currency volatility, the World Bank applies an automatic discount on future receivables in currencies other than the holding currency of the fund. The holding currency of the FCPF Readiness Fund is US dollars and the outstanding amounts are both in non-US dollar currencies. World Bank policy in this regard applies a regular discount percentage of 15%. This 15% discount equates to \$6.4 million. The FMT is in discussion with donors regarding payment of their outstanding amounts. When payments are made, provided the currencies have not weakened, funds equivalent to the discount of \$6.4 million should become available for commitment by the fund.

Table 2 – FCPF Readiness Fund Donor Contributions

<b>FCPF Readiness Fund Donor Contributions (\$ thousands)</b>		
<b>Participant Name</b>	<b>Total</b>	<b>Outstanding*</b>
Australia	23,892	
Canada	41,360	
Denmark	5,800	
European Commission	5,104	1,052
Finland	23,196	
France	10,340	
Germany	76,766	
Italy	5,000	
Japan	14,000	
Netherlands	20,270	
Norway	113,032	41,736
Spain	7,048	
Switzerland	8,214	
United Kingdom	5,766	
United States of America	9,000	
<b>Committed Funding</b>	<b>368,789</b>	<b>42,788</b>

\*Amounts may vary due to exchange rate fluctuations.

### 5.3 Investment Income

Amounts paid into both the FCPF Readiness Fund and the FCPF Carbon Fund, but not yet disbursed (the fund balances) are managed by the World Bank through a pooled investment portfolio (the Pool) to earn investment income. In accordance with all Participation Agreements with financial contributors, all investment income generated from both the Readiness and Carbon Funds is credited to the Readiness Fund. To date investment income amounts to \$17.5 million and it is anticipated that investment income will continue to accrue to the fund. However, it is World Bank policy not to commit investment income until it is credited to the fund. Amounts are difficult to estimate (and could potentially be negative). To aid understanding of investment income as a source of additional income into the Readiness Fund, the

investment income of the last two fiscal years has been \$3.1 million in FY16 and \$6.5 million in FY17 to date (in less than 9 months).

## 6. Total Available Funding

Total Available Funding is the total of committed funding, less the discount for receivables in a foreign currency, plus investment income. Currently the Total Available Funding in the Readiness Fund is \$379.9 million.

## 7. Uses of Funds

### 7.1 Grant Allocations

#### 7.1.1 Signed Grants

Signed grants to REDD Countries amount to \$199 million. These are legally binding commitments to countries but with fixed grant closing dates. All grant closing dates are prior to the current end of the term of the Readiness Fund on 31 December 2020. A few have closing dates in 2017 but most are in 2018 and 2019. A list of signed grants is shown in Annex 1.

#### 7.1.2 Allocations to REDD Countries not yet signed

Allocations to REDD Countries not yet signed in the form of grant agreements amount to \$54.5 million. The allocations are made up as follows:

Table 3 – Allocations to REDD Countries not yet signed

Country	Amount Allocated (\$m)	Date Allocated
Cambodia	5.0	9/28/2016
CAR	3.8	5/31/2013
Chile	5.0	11/6/2015
Cote d'Ivoire	5.0	9/22/2016
Guatemala	5.0	5/5/2016
Kenya	3.6	10/3/2010
Lao PDR	4.575	1/20/2017
Madagascar	5.0	9/28/2016
Mexico	5.0	4/19/2015
Nicaragua	5.0	9/28/2016
Paraguay	3.8	4/30/2015
Uganda	3.75	5/5/2016
<b>Total</b>	<b>54.5</b>	

All of these allocations have been made in good faith but at the same time allocations should not remain open-ended if a grant is not signed within a reasonable time period and there are others requesting funding from the limited resources. For this reason the FMT is proposing a time-limit for signing of grants, after which allocations become null and void, unless the PC decides otherwise. See later in the note for details of this proposal.

### **7.1.3 Allocations to Indigenous Peoples and Civil Society Organizations (IP/CSO) Capacity Building Program**

Two separate allocations have been made to the IP/CSO Capacity Building Program over the lifetime of the Readiness Fund. Initially, \$1 million was allocated over the period FY09 to FY13 (at \$200k per annum for 5 years). Then FMT Note 2012-5 (available [here](#)) was the basis for a further allocation of \$5.5 million to the IP/CSO Capacity Building Program in 2012. Of this second allocation of \$5.5 million, almost \$4 million (\$3,990k) was allocated to support through contracts/grants, making a total allocated to contracts/grants of \$4,990k. A total of \$1,943k has been disbursed through Phase 1 of the Capacity Building Program, through the vendor system. A report on these disbursements is currently being finalized. Further grant allocations totaling \$3,047k have been made under Phase 2 of the Capacity Building Program (through the six regional Recipient Organizations). Therefore total contract/grant allocations of \$4,990k have been made under both phases. The \$1,943k of disbursements under Phase 1 (through the vendor system) have been reported on previously as part of the Cash Disbursements from the fund (as opposed to grant disbursements) and are therefore included in the Administrative, Operations, and Country Support costs over the lifetime of the fund. The remaining allocation of \$3,047k will be reported on separately as grants to the IP/CSO Capacity Building Program. This allocation is therefore shown as a separate grant allocation under the 'Uses of Funds'.

This is presented in tabular format below:

Program	Total amount allocated (US\$ 000s)	Amount allocated for contracts/grants (US\$ 000s)
Initial allocation (FY09-FY13)	1,000	1,000
Second allocation in 2012	5,500	3,990
Totals	6,500	4,990

Phase	Amounts allocated (US\$ 000s)	System	How reported
1	1,943	Vendor (contracts)	Cash Disbursements (Admin, Operations and Country Support costs)
2	3,047	Regional Recipient Organizations (grants)	Grants to IP/CSO Capacity Building Program
Total	4,990		

## 7.2 Administrative, Operations, and Country Support costs over the lifetime of fund

These costs include all non-grant expenditures of the Readiness Fund over the lifetime of the fund from it becoming operational in 2008 through to 31 December 2020, a total of 12 years of operation. These costs are broken down into actual costs to the end of FY16, totaling \$53.7 million, projected costs through the remainder of the lifetime of the fund of \$33.2 million, and the \$2 million reserve for dispute resolution. The actual costs to the end of FY16 are reported by category in Table 7 of the Financial Report (included in the Annual Report available [here](#)). These Administrative, Operations, and Country Support costs include the Country Implementation Support costs transferred to the Delivery Partners for direct support to the REDD Countries, estimated at \$36.3 million over the lifetime of the fund, and other advisory services to countries from the FMT, estimated at \$16.6 million over the lifetime of the fund. Together these total \$52.9 million, a significant portion of the overall costs of the fund.

## 7.3 Reserve for Delivery Partner capacity for dispute resolution

The PC decided through Resolution PC/Electronic/2012/1 to allocate up to \$2 million for reinforcing Delivery Partner capacity for dispute resolution, inter alia. This reserve was intended so that Delivery Partners could quickly access additional support for facilitation, mediation and dispute resolution to address complaints early, thereby reducing unnecessary escalation. No Delivery Partners have ever requested to utilize this reserve. Given the limited funding available in the Readiness Fund and the almost complete allocation of existing funding, the FMT proposes to reduce this reserve by \$1 million (to \$1

million), thereby freeing up more available funding. The \$1 million proposed reduction takes into account that 5 years have elapsed since the reserve was made available but that almost 4 years remain in the term of the fund.

## 8. Estimated Reserve

A comparison of the total planned long term uses of funds of \$345.4 million with the total available funding of \$379.9 million indicates an estimated reserve of \$34.5 million. This is the amount that is available for future allocations.

## 9. Proposed Allocations to REDD Countries

There are currently three virtual requests for additional funding awaiting decision or no objection - Bhutan, Papua New Guinea and Peru. Total requests for additional funding from these three countries is \$14.8 million as per the table below.

Table 4 – Proposed Allocations of Funding – Virtual Requests

Proposed Allocations of Funding	
Virtual Requests	
Country	Request (\$m)
Bhutan	4.8
PNG	5
Peru	5
<b>Total</b>	<b>14.8</b>

In addition, there are four requests for additional funding to be considered at the upcoming PC meeting (PC23). Total requests for additional funding from these four countries at this PC is \$17.2 million, as per the table below.

Table 5 – Proposed Allocations of Funding – For Consideration at this PC

Proposed Allocations of Funding	
For Consideration at PC	
Country	Request (\$m)
Cameroon	5
Colombia	4.9
Honduras	2.3
Sudan	5
<b>Total</b>	<b>17.2</b>

Together these requests for additional funding from seven countries total \$32 million. This is within the estimated reserve of \$34.5 million. Given i) the previous policy of the PC of approving requests for additional funding on a first-come, first served basis provided all the criteria are met, including significant

achievement of progress, and ii) the need to disburse funds by 31 December 2020, the FMT recommends that this first-come, first-served policy is continued. Thus, provided all the criteria are met, the FMT proposes that allocations of \$32 million are made to these seven countries. (Note that associated support costs for these seven countries are included in the estimated Administrative, Operations, and Country Support costs for the lifetime of the fund).

If these seven allocations of additional funding are agreed, additional funding allocations will have been made to 25 of the 47 REDD Countries in the partnership, including 17 of the 19 Carbon Fund pipeline countries (those not included to date are Dominican Republic and Fiji). Initial readiness grants (\$3.6 or \$3.8 million) have been allocated to 44 of the 47 REDD Countries in the partnership. The three REDD Countries for whom initial readiness grant allocations have not been made are Bolivia, Gabon and Tanzania. Gabon will make a presentation at this PC meeting.

The FMT understands that there could be up to 8 requests for additional funding by the fall of 2017, which would increase the number of requests from 25 to 33. Assuming all requests are for the maximum of \$5 million per country, 8 requests would equate to \$40 million (plus support costs). The funding status of the fund will be assessed as and when additional requests for funding are received, including the option of providing smaller additional funding grants (i.e., less than the norm of \$5 million). However, it is clear from the foregoing that, unless additional contributions are made to the fund, the ability to meet future additional funding requests is extremely limited. If there are significant additional contributions to the fund, consideration should be given to extending the term of the fund.

## **10. Proposed Additional Allocation to the IP/CSO Capacity Building Program**

As mentioned above an allocation of \$3,047k has been made to the six regional Recipient Organizations under Phase 2 of the IP and CSO Capacity Building Program. Five out of six of these grants have now been signed and disbursements are under way. Most of these grants are likely to be disbursed by December 2017, although some will take longer. Quality requests for funding from these Recipient Organizations have exceeded the available funding under this program by far. It has also taken considerable time to achieve the transition from Phase 1 to Phase 2 and to agree on the systems and procedures involved with providing funding directly to IP and CSO groups via small grants. These systems are now established and seem to be working smoothly (for the most part).

IP and CSO representatives convened at a Stakeholder Engagement Workshop organized by the FCPF in Washington in October 2016. One of the requests emanating from this workshop was for additional funding for the IP and CSO Capacity Building Program. Representatives at the workshop proposed an additional allocation to the program of \$10 million per annum from July 2017. Previous verbal requests had been for total additional allocations of \$5 million to \$10 million.

Assuming the proposed allocation of \$32 million to the seven countries is agreed, there will be an estimated \$2.5 million remaining in the reserve. It is proposed that this \$2.5 million is allocated to the IP and CSO Capacity Building Program. It is also proposed that any agreed reduction in the reserve for dispute resolution is reallocated to the IP and CSO Capacity Building Program. This should ensure that a

minimum of \$2.5 million and up to \$3.5 million can clearly be allocated to the IP and CSO Capacity Building Program at this PC meeting.

In addition, the FMT proposes that, as soon as additional funds become available, the allocation to the IP and CSO Capacity Building Program is increased up to a total of \$5 million. Additional funds could become available through

- i) crediting of additional investment income to the fund
- ii) receipt of unpaid contributions, thereby releasing the 15% discount for receivables in a foreign currency
- iii) additional contributions from existing and/or new Donor Participants
- iv) allocations becoming null and void as a result of grants not being signed by the proposed deadlines (see below).

The FMT is confident that sufficient resources will become available in the fund through one or more of these possibilities in a timeframe to allow signing of grants by the proposed deadline below (30 June 2018). This proposed additional allocation of \$5 million recognizes the usefulness of additional resources being made available to these groups, the quality demand for additional resources, the feasibility of disbursing the grants by the end of the term of the fund and balancing the needs of these IP and CSO groups with the needs of REDD Countries.

If this proposal to allocate \$5 million to the IP/CSO Capacity Building Program is approved, Phase 2 of the program (i.e., the phase where grants are disbursed via the regional Recipient Organizations) will need to be extended to 31 December, 2020, in line with the current end of the term of the Readiness Fund.

## **11. Proposed Deadlines for the Signing of Grants**

(This section should be read in conjunction with FMT Note 2017-5, Enhancing Efficiency and Addressing Excessive Delays in Grant Agreement Implementation, part of the response to the recent Evaluation. This section is covered in this FMT Note to separate decisions to be taken by the PC from other business). In order to ensure allocations are utilized in a timely manner and to move towards full disbursement of all funds by 31 December 2020, the FMT proposes the following deadlines for signing of grants under the Readiness Fund:

- i) for allocations made to REDD Countries prior to 30 September 2016 – deadline for signing grant agreements: 30 September 2017 (applies to 11 of the 12 countries in Table 3 above),
- ii) for allocations made to REDD Countries after 30 September 2016, including the latest three virtual requests and the four requests being considered at this PC meeting (PC23) – deadline for signing grant agreements: 31 March 2018 (applies to 7 countries in Tables 4 and 5, plus Lao PDR),
- iii) for all allocations to IP and CSO Capacity Building Program – deadline for signing grant agreements with regional Recipient Organizations: 30 June 2018.

If grants are not signed by the proposed deadlines, allocations made by the PC would become null and void, unless the PC decides otherwise, and funds previously allocated could be reallocated by the PC.

Examples of possible reasons why the PC might decide otherwise are i) the delay in signing the grant agreement is clearly not due to delays by the REDD Country or the Recipient Organization, ii) delays over final agreement of Delivery Partners (e.g. Kenya and CAR), iii) elections, coups or other changes in administrations, iv) force majeure, unforeseen events or other extenuating circumstances beyond the control of the REDD Country or Delivery Partners.

## **12. Other Points to Note**

With the current funding situation and the proposed allocations in this FMT Note, the FMT anticipates that funds currently available under the Readiness Fund would likely be almost wholly disbursed by 31 December 2020. However, the FMT recognizes the increasing importance of rigorous portfolio monitoring as the fund nears its termination date. As part of its portfolio monitoring, the FMT will take an active role in decisions on whether to extend grant closing dates in conjunction with Delivery Partners, and will take into account alternative options with the aim of disbursing funds by the end of the term of the fund. An example of an alternative option could be a REDD Country that has not yet accessed the additional funding but has a very specific funding need that could clearly be disbursed quickly.

Participants may want to monitor progress of the Readiness Fund alongside developments in the Carbon Fund before deciding on the closing date of the Readiness Fund. However, if there are significant additional contributions to the fund, serious consideration should be given to extending the term of the fund.

Under the terms of the Participation Agreements with Donor Participants, any funds remaining at the end of the term of the Readiness Fund would normally be returned to Donor Participants on a pro-rata basis. However, Donor Participants could consider the possibility of a transfer of their pro-rata share of any remaining funds to the FCPF Carbon Fund. Any transfer would currently be subject to the \$5 million minimum contribution for those Donor Participants who are not also Carbon Fund Participants, and could be subject to any terms of a soft or hard closing of the fund, or Tranches of the fund.

## Annex 1 – Signed Grants with REDD Countries (March 2017)

AFRICA	Signed Grant
Burkina Faso	3,800
Cameroon	3,793
Cote D'Ivoire	3,800
DRC	8,791
Ethiopia	3,800
Ghana	8,586
Kenya	169
Liberia	8,782
Madagascar	3,800
Mozambique	8,800
Nigeria	3,800
Republic of Congo	8,033
Sudan	3,800
Togo	3,800
Uganda	3,800
<b>AFRICA sub-total</b>	<b>77,354</b>
LATIN AMERICAN & CARRIBEAN	Signed Grant
Argentina	3,800
Belize	3,800
Chile	3,800
Colombia	3,800
Costa Rica	8,758
Dominican Republic	3,800
El Salvador	3,800
Mexico	3,800
Nicaragua	3,800
Uruguay	3,800
<b>LAT AMER &amp; CAR sub-total</b>	<b>42,958</b>
EAST ASIA & PACIFIC	Signed Grant
Fiji	3,800
Indonesia	8,594
Lao PDR	3,772
Thailand	3,800
Vanuatu	3,728
Vietnam	8,800
<b>EAST ASIA &amp; PACIFIC sub-total</b>	<b>32,494</b>
SOUTH ASIA	Signed Grant
Bhutan	3,800
Nepal	8,233
Pakistan	3,800
<b>SOUTH ASIA sub-total</b>	<b>15,833</b>
<b>Totals through World Bank</b>	<b>168,638</b>
Other Delivery Partners	Signed Grant
Cambodia	3,800
Guatemala	3,800
Guyana	3,800
Honduras	3,800
PNG	3,800
Panama	3,800
Peru	3,800
Suriname	3,800
IDB and UNDP Grants	30,400
<b>Totals all Delivery Partners</b>	<b>199,038</b>