

## Forest Carbon Partnership Facility (FCPF)

### Carbon Fund

#### FY18 Budget Status and FY19 Proposed Budget for the FCPF Carbon Fund

June 2018

*This note is designed to (a) present the status of the FY18 budget and (b) present the proposed budget for FY19 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 FY19 starting July 1, 2018. Per the Charter, budgets are approved annually. The FY19 Readiness Fund budget was approved in March 2018 at PC25. **The FY19 budget of the Carbon Fund is submitted and proposed for approval at CF18.**

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’s 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
  - FMT staff time spent on Carbon Fund activities, programs and stakeholders
  
- 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 the General Conditions 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 \$910.6 million.

**Table 1 FCPF Carbon Fund Contributions as of April 30, 2018**

FCPF Carbon Fund		TF071077										
Donor Contributions as of April 30, 2018 (in \$ thousands)		TF072649										
Participant Name	Total	Outstanding*	FY18	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	331,321	123,265	29,616	54,771	13,329	32,108	27,280	6,556	15,443	21,125	3,819	4,009
Norway	304,111	61,955	12,494		58,352			161,310				10,000
Switzerland	10,796								10,796			
The Nature Conservancy	5,000											5,000
United Kingdom	200,660	182,720								17,940		
United States of America	18,500			4,500				4,000		10,000		
<b>Committed Funding</b>	<b>910,619</b>	<b>367,940</b>	<b>42,110</b>	<b>59,271</b>	<b>71,681</b>	<b>32,222</b>	<b>27,280</b>	<b>171,866</b>	<b>36,912</b>	<b>71,800</b>	<b>4,181</b>	<b>25,356</b>

#### 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 include all costs to date and all FY19 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 April 30, 2018, would be as follows:

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

Participant Name	Total	%age
<b>Tranche A</b>		
Australia	18,393	2.0%
BP Technology Ventures	5,000	0.5%
The Nature Conservancy	5,000	0.5%
United States of America	18,500	2.0%
<b>Tranche A Committed Funding</b>	<b>46,893</b>	<b>5.1%</b>
Canada	5,015	0.6%
European Commission	6,709	0.7%
France	5,114	0.6%
Germany	331,321	36.4%
Norway	304,111	33.4%
Switzerland	10,796	1.2%
United Kingdom	200,660	22.0%
<b>Tranche B Committed Funding</b>	<b>863,726</b>	<b>94.9%</b>
<b>Total Committed Funding</b>	<b>910,619</b>	<b>100%</b>

## 5. Approved FY18 Budget

The Carbon Fund Participants (CFPs) approved the following operating budget of \$8.2 million for FY18 (Resolution CFM/16/2017/3). 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 FY18 of \$1.2m. The total Carbon Fund budget for FY18 was therefore about \$9.4 million as shown in Table 3 below.

**Table 3 FCPF Carbon Fund Overall FY18 Annual Budget (Operating Costs in US\$000)**

Carbon Fund Costs (\$000s)	FY18 Budget
Carbon Fund Admin	687
<b>ERPA Costs – Selection &amp; Development of ER Programs</b>	
Carbon Fund TAP	674
Carbon Fund Country Advisory Support	1,820
Program Development - enhanced ER-PIN/PDs	4,142
<b>ERPA Costs – Supervision and Implementation Support</b>	
Supervision	313
Additional Activity on Private Sector Engagement	600
<b>Sub-total</b>	<b>8,236</b>
<b>Shared Costs</b>	<b>1,183</b>
<b>Total Carbon Fund Costs</b>	<b>9,419</b>

## 6. Total Expenses to Date (As at April 30, 2018)

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 as at April 30, 2018)**

Budget Line/Category of Costs (\$000s)	Pre-FY09	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18 Estimate	FY19 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	1,172	1,183	1,023	8,460
Carbon Fund Administration			183	366	470	652	626	741	555	657	597	855	5,702
Additional Activity on Private Sector Engagement											100	500	600
Additional Activity on Registries												300	300
<b>ERPA Costs - Selection</b>													
Carbon Fund TAP									440	514	550	554	2,058
<b>ERPA Costs - Development</b>													
Carbon Fund Country Advisory									1,290	1,691	1,792	2,253	7,026
ER-PD Development						229	273	1,283	2,350	2,585	2,454	2,235	11,409
ERPA Costs - Supervision											-	640	640
<b>Total</b>			183	366	1,539	2,117	2,058	2,846	5,432	6,619	6,676	8,360	36,195

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

- Expenses forecast to be charged against the Carbon Fund from FY10 to FY19 are \$36.2 million, of which \$8.5 million are for shared costs

## 7. Forecast Spend for FY18

Final FY18 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY18 books not closing until June 30, 2018, the estimated expenditures are tentative.

**Table 5 Estimated Spend for FY18**

Carbon Fund Costs (\$000s)	FY18 Budget	FY18 Estimate	Underspend	Spend Rate
Carbon Fund Admin	687	597	90	87%
<b>ERPA Costs – Selection &amp; Development of ER Programs</b>				
Carbon Fund TAP	674	550	124	82%
Carbon Fund Country Advisory Support	1,820	1,792	28	98%
Program Development - enhanced ER-PIN/PDs	4,142	2,454	1,688	59%
ERPA Costs - Supervision	313	-	313	0%
Additional Activity on Private Sector Engagement	600	100	500	17%
<b>Sub-total</b>	<b>8,236</b>	<b>5,493</b>	<b>2,743</b>	<b>67%</b>
Shared Costs	1,183	1,183	-	100%
<b>Total Carbon Fund Costs</b>	<b>9,419</b>	<b>6,676</b>	<b>2,743</b>	<b>71%</b>

## 8. Overspends and Underspends

The FY18 spend is projected to be 71% of the total FY18 allocated envelope once the final figures are available. However, when the ER-PD development funds that are contingent on CFP approval are excluded, the spend rate is anticipated to be 82%.

The underspend of about \$2.7 million out of the total budget of \$9.4 million is mostly accounted for by the ER-PIN/ER-PD program development (\$1.7m) Please see underspend rationale below;

### a. Carbon Fund Administration

Fund Administration costs are expected to be slightly below budget with an 87% spend. This is explained by late date of CF18 that pushes some of those meeting expenses into FY19.

### b. Carbon Fund TAP

Total Carbon Fund TAP costs are estimated at 82% of budget. Most ER-PDs in the pipeline reached the complete review stage as anticipated with 12 at the final stage as of the drafting of this note.

### c. Carbon Fund Country Advisory Support

The budget for Country Advisory Support was \$1.8 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 98% of budget.

**d. ERPA Costs – Enhanced ER-PDs**

The budget of \$4.1 million was an estimated spend during FY18 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 FY17 and 18. The additional allocations were to cover portions of ER-PD development for countries that were anticipated to access funds in FY18 (sign an LoI).

Of the countries selected into Carbon Fund pipeline, only those that sign an LoI gain access to the \$650k allocations for ER-PD development. Of the 19 countries invited into the pipeline of the Carbon Fund, all 19 have signed LoIs, thus releasing the \$650k of ER-PD Development funds. Nearly all of those countries spent on ER-PD development in FY18 with the exception of those countries that had already exhausted their allocation. Of the \$4.1 million budgeted for FY18, it is estimated that about \$2.5 million (or 59%) will be spent in FY18, an underspend of approximately \$1.7 m.

**e. ERPA Costs – Supervision**

Budget was planned for ERPA Supervision costs to eliminate the need to come back to the CFPs for additional budget once ERPAs were signed. As that has not yet happened, there was no need to access this budget that was intended to supervise the implementation and compliance with World Bank policies and procedures.

**f. Additional Activity on Private Sector**

The CFPs approved additional funds for work on Private Sector Engagement. While some of the activities got underway in FY18 resulting in a spend of \$100k, the need to consult broadly before targeting efforts pushed most of this work into FY19. This is partially due to the new team Private Sector Specialist leading this work joining later than was anticipated so some activities have got underway later than planned.

**g. 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 for the Carbon Fund are also estimates and may change when the final FY18 expenses are recorded. The current estimate projects expenditure to be within budget at \$1.2 m.

## 9. Sources and Uses as of April 30, 2018

The overall financial status of the fund is healthy. As shown in Table 6, of the total \$910.6 million, about \$857.2 million is available for the purchase of ERs. Estimated costs of the Fund over its lifetime are \$53.4 million, or about 6% of the total funds. The average ER amount per program is projected to be \$65.9 million, assuming 13 programs are developed.

**Table 6 State of the Fund - April 30, 2018**

<b>Carbon Fund Sources and Uses Summary (\$m)</b>	
	Current Situation
<b>Sources (\$m)</b>	<b>910.6</b>
<b>Number of Lots (#)</b>	<b>19</b>
Number of ER Programs (#)	13
<b>Uses</b>	
<b>Costs over Fund Lifetime</b>	
Fixed Costs (FY10 to FY26)	22.7
ER Program Costs	30.7
<b>Total Costs</b>	<b>53.40</b>
<b>Available for Purchase of ERs</b>	<b>857.2</b>
<b>Average ER Program</b>	<b>65.9</b>

## 10. FY19 Budget Proposal

**Table 7 FY19 Proposed Budget by Activity**

<b>Carbon Fund Costs (\$000s)</b>	<b>FY18 Budget</b>	<b>FY18 Estimate</b>	<b>FY19 Proposed Budget</b>
Carbon Fund Admin	687	597	855
<b>ERPA Costs – Selection &amp; Development of ER Programs</b>			
Carbon Fund TAP	674	550	554
Carbon Fund Country Advisory Support	1,820	1,792	2,253
Program Development - enhanced ER-PIN/PDs	4,142	2,454	2,235
ERPA Costs - Supervision	313	-	640
Additional Activity on Private Sector Engagement	600	100	500
Additional Activity on Registries			300
<b>Sub-total</b>	<b>8,236</b>	<b>5,493</b>	<b>7,337</b>
Shared Costs	1,183	1,183	1,023
<b>Total Carbon Fund Costs</b>	<b>9,419</b>	<b>6,676</b>	<b>8,360</b>

The proposed overall budget for FY19, excluding Shared Costs, is \$7.3 million, indicating a reduction of about \$1.0 million from the FY18 budget, the decrease being mostly attributed to lower program development costs of ER-Program Documents (ER-PDs). The FY19 proposed budget reflects the goal of assisting in the development of all 19 ER-PDs by the end of 2019. Except for the TAP costs, that are decreasing due to most countries being advanced with their ER-PD development, all cost categories budgets have increased as many countries start to wrap up their Readiness work and the team's focus moves more clearly toward Carbon Fund work.

**a. Carbon Fund Administration**

As shown in Table 7, the Carbon Fund Administration budget of \$855k reflects an increase when compared with the forecast expenditure for the current FY of \$597k. This reflects the full complement of staff to support the increasing work, as many countries increase their focus on the Carbon Fund. In addition, with many countries past the ER-PD stage moving towards ERPA, FMT depth has increased to support them as they move to ERPA signatures.

**b. 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 \$554k is based on reviews of an estimated 6 ER-PDs (Cote D'Ivoire, Dominican Republic, Fiji, Guatemala, Indonesia, and Peru).

- c. Country Advisory Support** comprises staff 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 support in preparing their ER-PDs and implementing their programs. This budget for the Country Advisory Support cost category in the amount of \$2.2 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 supports some funding for a Private Sector Specialist.

**d. Program Development - Enhanced ER-PINs/PDs**

As one of the largest shares of the proposed FY19 budget (\$2.2 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 and proceeding to ERPA signature, after selection into the CF pipeline and signing an Lol. The budget for FY19 of \$2.2 million is an approximate amount based on the anticipated ER-PD Development funding needs for the current 19 countries in the pipeline.

**e. 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 5 or 6 countries will reach this milestone by the end of FY19, funds have been set aside to cover the work of the **supervision activities** to help ensure that each ER program complies with applicable World Bank operational policies and procedures as well as specific ERPA provisions. For FY19, \$640k have been budgeted for this work.

**f. Continuation of the Proposed Additional Activity on Private Sector Engagement in Response to the Second Evaluation**

As part of the FY18 budget the CFPs approved a \$600k allocation in response to a desire for an increased presence to promote Private Sector Engagement in the FCPF which came out in the Second Evaluation of the FCPF. FMT Note CFM-2017-2 discusses the concept in greater depth. The following (summarized) steps were approved but only partially implemented in FY18:

- Provide increased travel support for the Private Sector Observer to attend CF 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 US State Department's sustainable commodity initiative, IDH, and UNDP Green Commodities Program with the REDD+ programs under development.

A Private Sector Specialist joined the team midyear. The FMT proposes continuing this work and carrying over the \$500k that were approved but not spent in FY18 into FY19.

**g. Additional Activity on Registries**

There are currently consultancies ongoing which will help the FMT to elaborate a technical and a financial proposal to develop and implement a centralized transaction registry. The FMT's intention is to develop a centralized transaction registry in an appropriate timeframe to ensure registration of the first transactions. This budget of \$300k is a very approximate estimate to ensure funds are available to enable development of the registry as soon as that decision is taken, without the need to refer back to the CFPs. The FMT will update the Carbon Fund meeting on progress and estimated costs at the next meetings.

- h.** The **FY19 Shared Costs** budget of \$1.0 million for the Carbon Fund was approved in March 2018 by the PC as part of the approval of the FY19 budget for the Readiness Fund. This does not require approval at this Carbon Fund meeting but is provided for information.

**11. Decision for the CF18 Meeting**

The Carbon Fund Participants are asked to approve the proposed Carbon Fund budget for FY19 of \$7.3 million, including the proposed Additional Activities on Private Sector Engagement and Registries, and to note the CF portion of the Shared Costs of \$1.0 million.