

Forest Carbon Partnership Facility (FCPF)

Readiness Fund

FY14 Budget Status and FY15 Proposed Budget for the FCPF Readiness Fund

June 24, 2014

As requested at the Fifteenth Meeting of the FCPF Participants Committee (PC15) held in Lombok, Indonesia, June 30- July 1, 2013 and mentioned in the Co-Chairs' Summary this note is designed to (A) present the status of the FY14 budget in the context of the life of the Facility and (B) present the proposed budget for FY15 of the Readiness Fund, including additional activities.

1. The Budget Cycle

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 FY15 starting July 1, 2014. Per the Charter, budgets are approved annually. The FY14 Readiness Fund and Carbon Fund budgets were approved in June 2013. **The FY15 budget of the Readiness Fund is submitted and proposed for approval in this meeting of the PC, PC17.**

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. As more countries sign Readiness Preparation Grants and as UNDP and the Inter-American Development Bank become active as Delivery Partners, this category of expenditures will continue to increase.

Also within Services to REDD Countries, **Country Advisory** activities consist of FCPF team coordination of, and feedback on, R-PPs, Mid Term Reviews and R-Packages. 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, piloting forest governance grievance redress mechanisms, and linking local REDD initiatives to national REDD+ strategies) with individual REDD Country Participants is another key component.

Finally, **REDD Methodology Support**, rounds out the support to REDD Countries with activities such as Technical Advisory Panel (TAP) reviews of R-PPs and R-Packages, TAP reviews of Carbon Fund related themes (e.g., Methodology and Pricing), and TAP participation in FCPF meetings. Other key responsibilities include the close liaison with UN-REDD and international REDD+ programs (FIP, CIFs) as well as analysis on key REDD+ topics, lessons learned, and knowledge management (e.g., MRV, Reference Levels, Registries)

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. FCPF Secretariat costs also cover travel and expenses of REDD Country Participants in meetings, website management, general and targeted 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. Other key tasks such as accounting, resource management, contracting, and contributions management comprise fund administration. Finally, legal services and the initial development of the Facility wide M&E framework are also undertaken within the fund administration role.

2. Shared Costs

At 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 (Approved by the PC through Resolution PC/8/2011/8) was also established.

3. Fund Contributions

The current capitalization of the Readiness Fund is \$360.5 million as shown below.

Table 1 FCPF Contributions as of June 1, 2014 (US\$ millions)

Contributions to the FCPF Readiness Fund as of June 1, 2014 (US\$m)								
	FY09	FY10	FY11	FY12	FY13	FY14	FY15-17	Totals*
Australia	9.6		8.0	6.3				23.9
Canada			41.4					41.4
Denmark		5.8						5.8
European Commission				2.7		1.4	1.4	5.4
Finland	9.0			5.7	5.3			20.0
France	4.6	0.6		5.1				10.3
Germany			26.0		13.1	13.9		52.9
Italy			5.0					5.0
Japan	5.0	5.0		4.0				14.0
Netherlands	5.0			7.6	7.6			20.3
Norway	5.0	16.4	8.8			38.7	62.5	131.4
Spain	7.0							7.0
Switzerland	8.2							8.2
United Kingdom			5.8					5.8
United States of America	0.5	4.5			4.0			9.0
Committed Funding	53.9	32.3	94.9	31.5	30.0	54.0	63.9	360.5

4. Approved FY14 Budget

The FMT constructed a budget based on its forecasted work program and estimated country support needs. After reviewing the FY14 proposed budget at PC15, the PC approved the following operating budget.

Table 2 FCPF Readiness Fund Overall FY14 Annual Budget (Operating Costs)

Overall Budget (\$000s)	FY14 Proposed Budget
Readiness Trust Fund Administration	447
FCPF Secretariat	1,407
REDD Methodology Support	2,255
Country Advisory Services	2,206
Sub-total	6,315
Country Implementation Support	4,023
Sub-total	10,338
IP and CSO Program	1,571
Total Operating Costs	11,909

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

Overall Budget shared between funds (\$000s)	FY14 Proposed Budget
Readiness Fund	10,627
Carbon Fund	1,282
Total	11,909

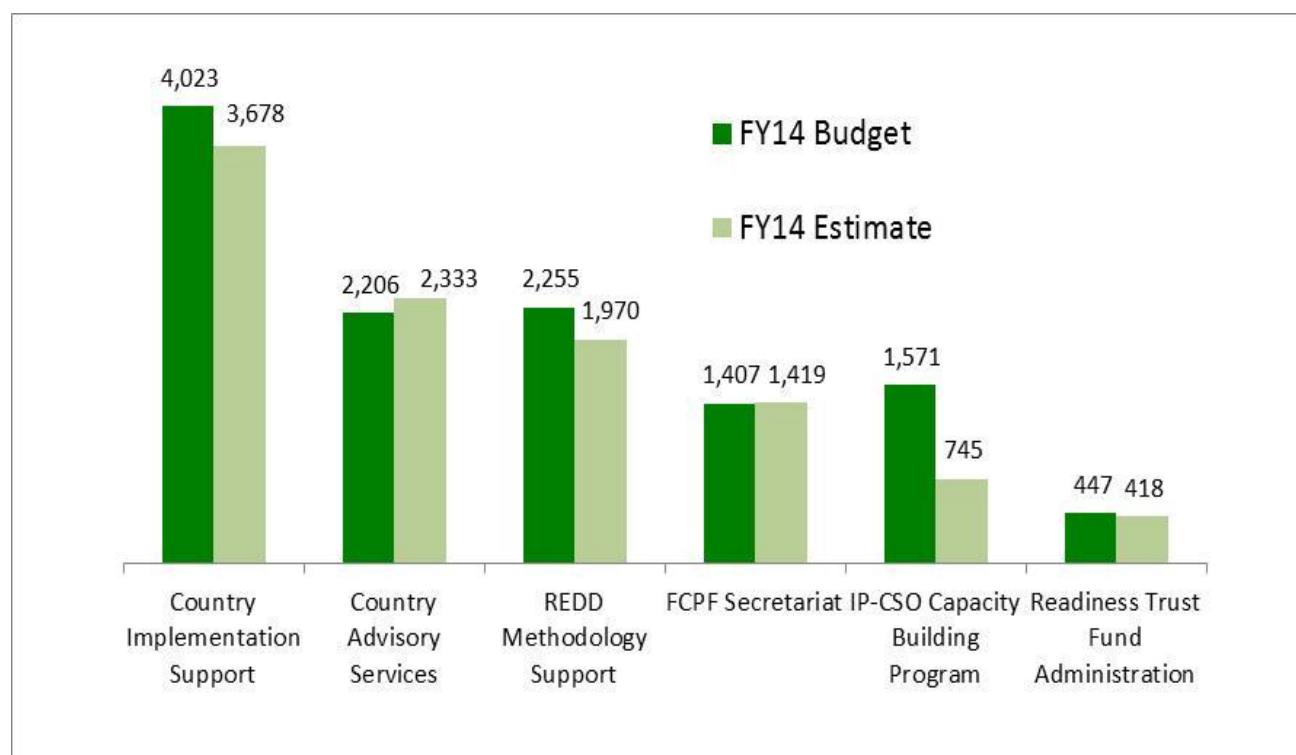
5. Estimated Spend for FY14**Table 4 Estimated Spend for FY14**

FY14 Readiness Fund (\$000s)	FY14 Budget	FY14 Estimate	Under/(over) spend	Burn Rates
Readiness Trust Fund Administration	447	418	29	94%
FCPF Secretariat	1,407	1,419	(12)	101%
REDD Methodology Support	2,255	1,970	285	87%
Country Advisory Services	2,206	2,333	(127)	106%
Sub-total	6,315	6,140	175	97%
Country Implementation Support	4,023	3,678	345	91%
Sub-total	10,338	9,818	520	95%
IP and CSO Capacity Building Program	1,571	745	826	47%
Total Readiness Fund (including Carbon Fund Shared Costs)	11,909	10,563	1,346	89%

Final FY14 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY14 books not yet closed, the estimated expenditures are tentative. The FY14 budget is estimated to show an 89% spend against the total allocated envelope once the final figures are available. This corresponds to an under-spend of about \$1.3 million on the total budget of \$11.9 million. The largest portion of the under spend (\$826k) is attributed to delayed disbursements within the IP/CSO Capacity Building Program while the delivery mechanism is still being established. A closer look at most other core activity areas shows fairly accurate budget planning within the FCPF.

6. Overspends and Underspends by Category

Figure 1 Status of the FY14 Expenditures: Budget v Estimates



a. Secretariat and Trust Fund Administration

Trust Fund Administration costs are expected to be slightly under budget (94% spend). As the experience of the FMT grows the team finds ways to save on standard tasks. On the other hand, the Secretariat costs will likely show a slight overspend of about 1%. The main contributing factor here is the high meeting costs of PC16 in Geneva.

b. Services to REDD Countries

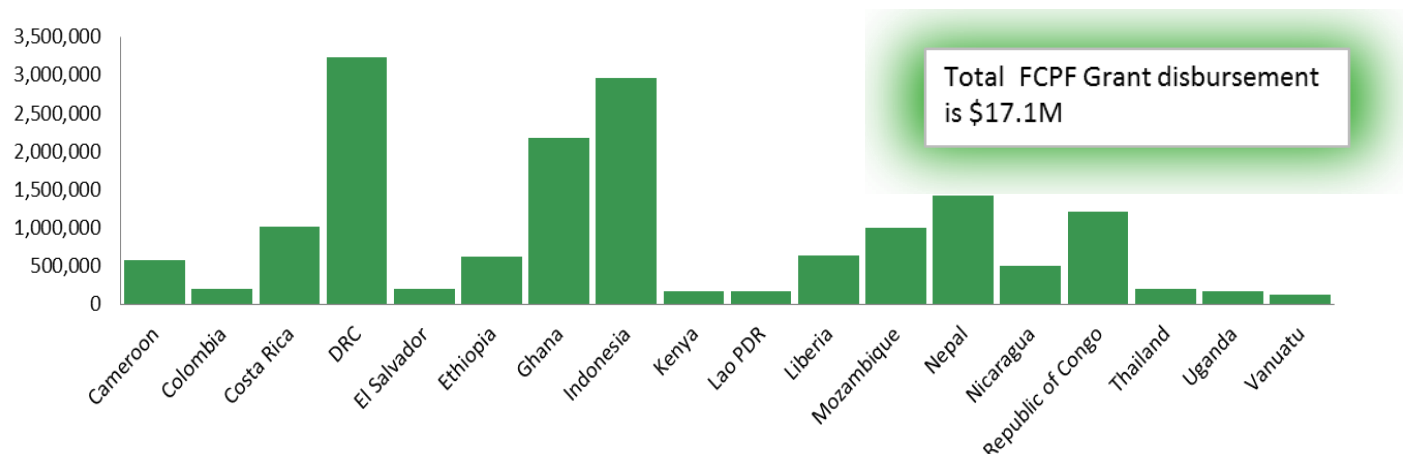
REDD Methodology Support, Country Advisory Services, and Country Implementation Support spending rates are estimated to be fairly high mostly due to the entry of 8 (potentially 11) new REDD Countries into the FCPF. The increased burden on the TAP to review 11 R-PPs can be seen in the estimated REDD Methodology Support expenses. However the category will likely show a slight underspend (87%) due to a refocus on direct country support rather than ‘additional activities’ work on Reference Levels, MRV, and Registries.

In the Country Advisory Services function, the team carried out substantial work on Social Inclusion workshops (3 of which were successfully conducted in FY14) and on Strategic Environmental and Social Assessments (SESAs), a key element of Readiness.

An overspend of \$127k (6%) is anticipated but in-line with the refocus on getting to grant signatures and increasing disbursement support to countries.

The final area of country support is Country Implementation Support. This work of the implementing agencies has seen the signature of 11 grants since the previous PC as well as an uptick in grant disbursement for a cumulative total of over \$17 million disbursed as of May 23, 2014. The details of the disbursements are shown in Figure 2.

Figure 2 FCPF Total Grant Disbursements as of May 23, 2014



The implementing partners are estimated to have spent 91% of their annual budget by June 30, 2014. There is an estimated underspend of \$345k.

c. IP/CSO Capacity Building Program (CBP)

The new phase of the program through Regional Intermediaries has not advanced as quickly as forecast. This is clearly reflected in the 47% spend rate corresponding to an \$826k underrun.

The life of the program was to be until the end of FY15. Due to the delays, the FMT proposes apportioning the remaining allocations across additional years, extending the program to the end of FY17. The original \$5.5 million envelope will remain the same. This Program will be considered in more detail under agenda item 10, 'Fostering Social Inclusion through FCPF Capacity Building Program and Related Initiatives'.

7. Status of Additional Activities

Proposed Additional Activities	FY14 Budget	FY14 Estimates
MRV/Reference Levels (now includes registries work in FY15)	560	263
Private Sector Engagement in REDD+	234	86
Registries for REDD+	196	35
Capacity Building for Social Inclusion	559	711
Linking Local Initiatives to Strategy	171	151
Piloting Forest Governance and Grievance Redress Mechanisms	66	33
South - South Exchange on Managing REDD Funds at the National Level	97	13
TOTAL	1,883	1,292

Other than an overspend in the Capacity Building for Social Inclusion work the FY14 additional activities did not spend 32% of the allocated budget. The main reason for this is reallocation of FMT time on direct support to REDD countries. Some activities will continue in FY15 with the PCs approval (see section 9 below).

8. FY15 Budget Proposal

Table 5 FY15 Proposed Budget by Activity

Overall Budget (\$000s)	FY14 Budget	FY14 Estimate	FY15 Proposed Budget
Readiness Trust Fund Administration	447	418	410
FCPF Secretariat	1,407	1,419	1,719
REDD Methodology Support	2,255	1,970	1,257
Country Advisory Services	2,206	2,333	2,050
Sub-total	6,315	6,140	5,436
Country Implementation Support	4,023	3,678	3,880
Sub-total	10,338	9,818	9,316
IP and CSO Program	1,571	745	2,065
Total Operating Costs	11,909	10,563	11,381

The overall budget request for FY15 will be quite similar to FY14 but the distribution of the funds will differ slightly. The continued focus on REDD country support is seen in the budget as the bulk of the request is for the Country Service areas.

As seen in Table 5, the Readiness Trust Fund Administration budget is marginally lower than the FY14 budget and estimated expenditure.

On the contrary, the Secretariat function is budgeted to increase to \$1.7 million. Due to the timing of the meeting, some PC17 costs will be charged in FY15. Otherwise translation costs, website management and overall program management costs are increasing.

Country Advisory Services, the FMT work closest to the REDD countries, will continue to be a larger portion of the budget request for FY15 due to a renewed focus on country support. The team made the strategic decision for most of them to spend about 80% of their time supporting the core work of the FCPF – working with REDD Countries to advance their readiness agendas. In addition to that focus, the introduction of 8 – and potentially 11 – new countries into the FCPF called for additional staff to support these new countries.

Under Country Implementation Support, the work of the Delivery Partners (World Bank, UNDP and IDB) to conduct due diligence, prepare technical missions and documents directly with the REDD Countries will be the largest portion of the FY15 budget request. The introduction of 8 (and potentially 11) additional REDD countries into the Facility requires increased support funds. The request of \$3.88 million reflects that need.

9. Additional Activities

A total of \$749k is requested for the continuation of Additional Activities. In most cases the budget is a carry-over of underspends for activities planned but not completed in FY14.

Table 6 FY15 Proposed Additional Activities

Proposed Additional Activities	FY15 Proposed Budget
MRV/Reference Levels (now includes registries work in FY15)	329
Piloting Forest Governance and Grievance Redress Mechanisms	90
South - South Exchange on Managing REDD Funds at the National Level	84
Implementation of the Framework (follow on to Working Group on Pricing & Methodology)	142
New REDD+ Program Cost Assessment	104
TOTAL	749

a. MRV/Reference Levels/Registries

This budget of \$329K is requested to continue and finalize the decision support tools and technical tutorials for reference level and forest monitoring system design that were initiated and advanced in FY14. The main outputs of the activity are:

- i. An interactive and online decision support tool to assist REDD countries in the design of their reference level (national or subnational) and to understand the implications on measurement and reporting during REDD+ implementation, and
- ii. A set of technical training and learning modules to complement the decision support tool which will facilitate the implementation of the necessary technical work.

Both the decision support tool and training materials are at an advanced stage of development and are currently being reviewed and finalized. The rollover of the budget from FY14 will cover outstanding invoices for final deliverables, dissemination and translation, plus additional budget to apply the tools in the context of Emission Reductions Program development under the Carbon Fund with the support from consultants.

b. Piloting Forest Governance and Grievance Redress Mechanisms

Following on the work of FY14, in FY15 it is proposed to continue to pilot the PROFOR tool in one or two further countries.

c. South-South Knowledge Exchange on Managing REDD+ Funds at the National Level

The \$84k budget is to promote a series of knowledge exchange activities (jointly with UN-REDD) on National REDD+ Funds Management targeted at Colombia, DRC, Ethiopia, Indonesia, and Vietnam; while tapping into the knowledge from other countries (Brazil, Costa Rica and Mexico). The workshop planned for FY14 was postponed to FY15 following a request from participants.

d. Implementation of the Pricing and Methodological Framework

This \$142k is to develop technical guidance and provide support on issues related to carbon accounting, registries, leakage and displacement (risk assessment) etc. to advance implementation of the Carbon Fund Methodological Framework approved in December 2013 and provide technical assistance more generally, including in countries working on REDD+ readiness. The work is to be performed by existing FMT members as well as consultants to advance specific technical work (e.g. write specification for the registry, buffers, etc. or summarize existing guidance produced by others). The funds would also be used to promote collaboration with the Partnership for Market Readiness (PMR) and pilot joint work in a common country (e.g. on registries) as demand arises.

e. REDD+ Program Cost Assessment

This \$104k activity builds on the work done previously with the World Bank Institute on REDD+ cost assessment tools (developed using non-FCPF resources). In the context of the Carbon Fund it is becoming increasingly clear that a sound understanding of the underlying costs of future REDD+ programs is central for sustainable program design and price and volume negotiations for emission reduction contracts. The activity builds on existing manuals and spreadsheet-based tools that were developed to assess opportunity, transaction and implementation costs as well as several case studies that applied to the tools. Going forward, these tools would be tailored to the needs of the work in the FCPF and the Carbon Fund in particular (ER-Program Development).

10. Decision at PC17

The Participants Committee is asked to approve the proposed budget for FY15 of \$11.4 million (including the \$749k for additional activities).