

Forest Carbon Partnership Facility (FCPF)

Readiness Fund

FY20 Budget Status and FY21 Proposed Budget for the FCPF Readiness Fund

June 2020

This note is designed to (a) present the status of the FY20 budget and (b) present the proposed budget for FY21 of the Readiness Fund for virtual 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 FY20 starting July 1, 2019. Per the Charter, budgets are approved annually. The Readiness Fund budget and Shared Costs are approved by the Participants Committee (PC). The FY20 Readiness Fund and Carbon Fund budgets were approved in March and July 2019, respectively. In light of COVID-19 and the cancellation of the FCPF Participants Committee meeting planned for March 2020, the **FY21 budget of the Readiness Fund is submitted and proposed for a virtual no-objection to the PC through an “Action Without Meeting”**, under section VI of the Rules of Procedure for Meetings of the Participants Committee.

The FCPF Readiness Fund 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, UNDP and IDB). 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 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. Staff within the Facility Management Team (FMT) with responsibility for specific country programs (previously termed ‘country focal points’) were transferred from the FMT to the Environment Global Practice within the World Bank in April 2017. For consistency their time spent providing support to these country programs will continue to be charged to this expense category.

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 such as the REDD+ Decision Support Tool, 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, GCF), 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 all the Participant Committee and Participants Assembly meetings 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. 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. Any additional Shared Costs in excess of \$12 million over the lifetime of the fund will therefore be wholly charged to the Readiness Fund. With the extension of the Readiness Fund to December 2022, Shared Costs are estimated to be approximately \$13 million over the lifetime of the Readiness Fund. If this is the case, this will result in a charge to the Readiness Fund (in lieu of the Carbon Fund) of approximately \$350k (35% of the additional \$1 million).

3. Fund Contributions

The current capitalization of the Readiness Fund is \$399.1 million as shown below¹. All committed contributions to the Readiness Fund have now been fully paid – and there are no outstanding contributions remaining.

Table 1: FCPF Readiness Fund Donor Contributions as of April 30, 2020 (US\$ thousands)

Donor Contributions as of April 30, 2020 (in \$ thousands)													
Participant Name	Total	Outstanding	FY19	FY18	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	5,173		1,121					1,364		2,688			
Finland	23,196						3,230		5,261	5,749			8,956
France	10,340									5,136		592	4,612
Germany	106,382			29,616			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	113,696		12,281	30,119	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	399,138		13,402	59,735	2,370		27,014	54,004	30,009	31,538	94,880	32,290	53,895

4. Approved FY20 Budget

The FMT constructed a budget based on its forecasted work program and estimated country support needs. After reviewing the FY20 proposed budget, the PC approved the following operating budget.

Table 2: FCPF Readiness Fund Overall FY20 Annual Budget (Operating Costs)

Overall Budget (\$000s)	FY20 Budget
Readiness Trust Fund Administration	563
FCPF Secretariat	2,798
REDD Methodology Support incl. Additional Gender Activities	1,570
Country Advisory Services	1,919
Sub-total	6,850
Country Implementation Support	4,112
Sub-total	10,963
IP and CSO Program (Program Admin, Other (travel, etc)), incl. Additional Activities	672
Total Readiness Fund (including Carbon Fund Shared Costs)	11,635

¹ Germany has recently announced a contribution of €20 million to support indigenous people for forest protection. The FCPF plans to open a new multi-donor trust fund to support indigenous peoples and local communities, with this funding as the initial contribution, under one of its new Umbrella Trust funds.

Table 3: Share of the FY20 Budgeted Costs between Readiness Fund and the Carbon Fund

Overall Budget shared between funds (\$000s)	FY20 Budget
Readiness Fund	10,106
Carbon Fund	1,529
Total	11,635

5. Estimated Spend for FY20

Final FY20 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY20 books not closing until June 30, 2020, the estimated expenditures are tentative.

Table 4: Estimated Spend for FY20

Overall Budget (\$000s)	FY20 Budget	FY20 Estimate	Underspend	Burn Rate
Readiness Trust Fund Administration	563	377	186	67%
FCPF Secretariat	2,798	1,682	1,117	60%
REDD Methodology Support incl. Additional Gender Activities	1,570	861	709	55%
Country Advisory Services	1,919	1,441	478	75%
Sub-total	6,850	4,360	2,490	64%
Country Implementation Support	4,112	2,594	1,518	63%
Sub-total	10,963	6,955	4,008	63%
IP and CSO Program (Program Admin, Other (travel, etc)), incl. Additional Activities	672	309	363	46%
Total Readiness Fund (including Carbon Fund Shared Costs)	11,635	7,264	4,371	62%

6. Overspends and Underspends by Category

The FY20 spend is projected to be 62% of the total FY20 allocated envelope once the final figures are available. This corresponds to a forecast underspend of about \$4.3 million out of the total budget of \$11.6 million. The largest portion of the forecast underspend is mostly attributed to the impacts of COVID-19.

a. Secretariat and Trust Fund Administration

The Trust Fund Administration costs are expected to be under budget (67% spend). As the experience of the FMT grows the team finds ways to save on standard tasks. Also spending below budget, the Secretariat costs will likely be at 60%. The main contributing factor is the COVID-19 outbreak, with the cancelled PC meeting originally planned for the spring of 2020 and some of the activities planned for Communication and Knowledge Management are now delayed and will be carried over to the FY21.

b. Services to REDD Countries

REDD Methodology Support costs are estimated to be around 55% of budget. This lower expense rate is attributed to two main factors: a lower than expected spend on the TAP due to fewer than anticipated R-Packages; and, delayed work on the activities for Gender Inclusion in Forests and Landscapes.

In the Country Advisory Services function, showing a 75% spend rate on the budget, the team carried out substantial work supporting all active REDD Countries.

The final area of country support is Country Implementation Support, which involves the work of the Delivery Partners (World Bank, UNDP and IDB) in providing direct implementation support, including technical assistance to REDD Countries. The FY20 projected spend is 63%.

7. Long Term Sources and Uses

As shown in Table 6, the total committed funding amounts to \$399.1 million, with an additional \$65 million earned in investment income to date, bringing the total available funding to \$464.1 million. Of the total available funding, \$327.3 is allocated for Grants to REDD Countries and to the existing IP and CSO Capacity Building Program, including an additional allocation of \$5 million to the program. \$116 million is allocated to cover Operations, Country Support and Administrative activities over the lifetime of the fund from inception in 2008 until closing in 2022. This leaves \$20.8 million in reserve. The proposed budget for FY21 is included in the FY20-23 Projected costs for Operations, Country Support and Administrative activities. Also included in the FY20-23 Projected costs are Additional Bank-Executed activities as approved at the PC26/PA11 Meeting in October 2018. These activities fall under four broad categories; namely: Monitoring, Reporting and Verification (MRV), Private Sector Engagement, support to IPs and CSOs and Country Forest Notes. The original budget allocations for these additional activities across the three Fiscal Years FY19-21 are shown in the table below. However, much of the MRV and Private Sector Engagement budget will be carried over into FY21. The budget for these additional activities is not included in the proposed budget for FY21 of \$9,863k.

The Unallocated Funds of \$20.8 m are mainly attributable to investment income earned on fund balances in both the Readiness and Carbon Funds, which is all credited to the Readiness Fund. It is therefore expected that the unallocated fund balance will continue to increase as more investment income is credited to the Readiness Fund.

Table 5: Bank-Executed Additional Activities budget allocation (US\$ thousands)

Bank Executed Additional Activities	F19	FY20	F21	Total
MRV	900	3,600	1,500	6,000
Private Sector Engagement	938	1,823	240	3,000
IP/CSO	450	855	-	1,305
Country Forest Notes	600	900	-	1,500
Total	2,888	7,178	1,740	11,805

Table 6: Summary of Long-Term Sources and Uses of Readiness Funding

Summary of Long Term Sources and Uses of Readiness Funding (in \$ million, as of April 30, 2020)		
Description	Totals (\$m)	
Sources of funds		
Committed Funding	399.1	
Investment income to date	65.0	
Total Available Funding		464.1
Uses of funds		
Grant Allocations		
To REDD Countries		
Signed grants to REDD Countries (commitments)	311.2	
Allocations to REDD Countries (not yet signed)	3.1	
Total Allocation to REDD Countries		314.3
To IP/CSOs		
Initial Allocation to IP/CSO Capacity Building Program (commitments)	3.0	
Additional Allocation to IP/CSO Capacity Building Program (March 2017)	5.0	
Additional Allocation to IP/CSO Capacity Building Program (November 2019)	5.0	
Total Allocation to IP/CSO Capacity Building Program		13.0
Total Grant Allocations		327.3
Administrative, Operations, and Country Support costs over lifetime of fund		
FY09-19 Actual costs	79.6	
FY20-23 Projected costs	35.4	
Reserve for Delivery Partner capacity for dispute resolution	1.0	
Total Administrative, Operations, and Country Support costs over lifetime of fund		116.0
Total Uses of Funds		443.3
Estimated Reserve: Total Available Funding less Total Uses		20.8

8. FY21 Budget Proposal

Table 7: FY21 Proposed Budget by Activity

Overall Budget (\$000s)	FY20 Budget	FY20 Estimates	FY21 Proposal
Readiness Trust Fund Administration	563	377	308
FCPF Secretariat	2,798	1,682	2,518
REDD Methodology Support incl. Additional Gender Activities	1,570	861	2,025
Country Advisory Services	1,919	1,441	1,027
Sub-total	6,850	4,360	5,878
Country Implementation Support	4,112	2,594	2,425
Sub-total	10,963	6,955	8,303
IP and CSO Program (Program Admin, Other (travel, etc)), incl. Additional Activities	672	309	1,560
Total Readiness Fund (including Carbon Fund Shared Costs)	11,635	7,264	9,863

The overall budget request for FY21 of \$9.9 million is approximately \$1.7 million less than the equivalent in FY20 of \$11.6 million and the distribution of the funds will slightly differ. This decrease is mainly due to the decrease in Country Implementation Support and Country Advisory Services. This decrease reflects the fact that not all countries are planning to extend their Readiness Grants, and some of the Grants have been already fully disbursed. The FY21 budget request includes \$1.5 million for additional Gender activities and \$1 million for additional IP/CSO Program activities².

As seen in Table 7, the **Readiness Trust Fund Administration** budget at \$308k is lower than the FY20 budget and estimated expenditure.

The **Secretariat** function budget will remain steady at about \$2.5 million, maintaining the increased Knowledge, Learning and Communications component. Among other activities planned for FY21 are: i) budget for South-South Knowledge Exchanges (SSKE), ii) a higher allocation has also been made for translation of general and Secretariat PC documents in order to cater to all Participants. Some of the activities have been slowed by COVID-19 but are expected to be carried over to FY21. PC/PA Meeting costs may be reduced as a result of COVID-19 but the full impact is not clear.

REDD Methodology; the budget allocation to REDD Methodology has increased to just over \$2 million from FY20, mainly because of an additional budget request of \$1.5 million for Gender activities. This is for an expanded scope of activities for addressing gender gaps in FCPF Emission Reductions Programs and Benefit Sharing Plans (\$1.5 million). FCPF dedicated gender focused programming will consolidate the gender gap analyses conducted at the country level and support the implementation of the country level Gender Action Plans (GAPs). This will be done through a series of trainings for key stakeholders at the country level, including REDD+ focal points, IPs organizations and CSOs as well as piloting BSP activities with a focus on engaging and empowerment of women, especially Indigenous Women. Through these activities, FCPF is facilitating the sharing of experiences and good practices on gender mainstreaming in carbon finance. The gender focused programming will continue into FY22.

Note that the FY21 REDD Methodology budget also includes the delivery of the Sustainable Agricultural Banking Program, with a budget of \$240k.

² This \$1 million for additional IP/CSO activities is in addition to the \$1.3 million shown in Table 5 which is fully disbursed.

Country Advisory Services, which primarily covers the time spent by Methodology Specialists and ‘country focal points’ on country programs. With a budget of about \$1 million, this represents a decrease of about 900k from the FY20 Budget, as a result of decreasing numbers of active REDD Countries.

Country Implementation Support, which involves the work of the Delivery Partners (World Bank, UNDP and IDB) in providing direct implementation support, including technical assistance to REDD Countries, is the sole component of the budget proposal. The budget for these activities for FY21 stands at \$2.4m.

The FCPF has extended the IP and CSO Capacity Building Program until December 2022, with an additional allocation of \$5m to the program. There is a budget of \$560k to cover program administration costs for the IP and CSO Capacity Building Program.

The FY21 budget proposal for the IP and CSO Program also includes \$1 million for an additional activity for Inclusion of Indigenous Peoples, Local Communities and southern CSOs in FCPF ER Programs. FCPF will continue to support inclusion of IPLCs and CSOs in policy dialogue and decision making on climate finance and securing collective land tenure in the REDD+ programs. The programming will aim to empower these key REDD+ stakeholders through: i) targeted awareness and knowledge activities on principles and processes of the REDD+; and ii) exchange of experiences and good practices in inclusion of IPLCs and CSOs in the preparation and implementation of FCPF emission reductions programs and benefit sharing plans. The social inclusion program will support possible engagement opportunities in securing collective land tenure in Carbon Fund countries identified by the Rights and Resources Initiative (RRI) land study. These pathways for enhancing inclusion of IPLCs in Carbon Fund programs will be further strengthened in FY22.

9. Shared Costs of the Proposed FY21 Budget

Table 8. Proposed Shared Costs FY21

Overall Budget shared between funds (\$000s)	FY20 Budget	FY21 Proposal
Readiness Fund	10,106	8,273
Carbon Fund	1,529	1,590
Total	11,635	9,863

The proposed budget of \$9.9 million includes Shared costs to be charged to the Carbon Fund of approximately \$1.6 million.

10. Virtual no-objection to the PC through an “Action Without Meeting”.

The Participants Committee is asked to virtually approve the proposed budget for FY21 of \$9.863 million, including the additional activities for Gender of \$1.5 million and for IPs and CSOs of \$1 million.