

Forest Carbon Partnership Facility (FCPF)

Note on the Size of the FCPF Readiness Fund and Number of REDD Countries to be Selected

October 18, 2008

Introduction

1. The original concept for the Readiness Fund proposed in the design phase, and formalized in the World Bank Board paper approved on September 25, 2007, was a fund capitalization of US\$100 million to serve the readiness needs of about 20 Eligible REDD Countries.¹ The FCPF Facility Management Team (FMT) is still using these numbers as the central assumptions for planning purposes. This note provides an update on fund capitalization and issues regarding the number of potential REDD Countries, with proposals for the first Participants Committee of the FCPF.
2. Eligible REDD countries have reacted enthusiastically to the FCPF concept - well beyond the original expectations in 2007. To date, 43 Eligible REDD Countries have expressed interest in the Facility, of which 28 have submitted a Readiness Plan Idea Note (R-PIN). Of these 28 R-PINs, the first 18 were reviewed by the FCPF Steering Committee at its July 2008 meeting, and 14 were selected into the Readiness Mechanism (please see detail in Annex 2). Fourteen additional R-PINs have been submitted in time for consideration at the October 21-22, 2008 Participants Committee (PC) meeting.
3. It is certain that the FCPF will receive more than 30 R-PINs, since additional countries are currently preparing their own submissions. We have been informed of at least seven other countries that are preparing an R-PIN for submission in the next few months (please see Annex 3).
4. As discussed in the July 2008 Steering Committee meeting, this level of enthusiasm is a very welcome sign of the interest that the FCPF has created for 'learning by doing' together to reduce emissions from deforestation and forest degradation. In the Steering Committee meeting, the FMT noted that, given the spirit of this unique partnership, it would be difficult to turn down countries to apply strictly the limit of 20 REDD Country Participants. The FMT also suggested that this would have implications on the level of funding required for the Readiness Fund.
5. Using the original ratio of US\$100 million for 20 countries, it is reasonable to expect that the Readiness Fund would need to be capitalized at US\$150 million for 30 countries and US\$200 million for 40 countries.

¹ The cost of reaching "readiness", as it is defined in the FCPF Charter and Information Memorandum (see http://carbonfinance.org/docs/FCPF_Info_Memo_06-13-08.pdf), is tentatively estimated at US\$3.2 million on average, with considerable variation expected across countries. The average cost was estimated based on the tentative budgets provided by several REDD countries having submitted an R-PIN to the FCPF and based on the experience of World Bank staff. The cost does not include all capacity building need or the implementation of the Monitoring, Reporting and Verification system. Additionally, it does not fully address major governance issues. Please see Annex 1 for more details.

6. However, while pledges of the original target of US\$100 million for the Readiness Fund have been received, signed Donor Participation Agreements representing firm financial commitments total about US\$74 million to date. Moreover, the availability of these funds is spread out over the next two to four years, and not all of the US\$74 million can be treated as ‘cash on hand’ given that some Donors have specified a release of their financial commitments through time.

7. If the PC were to allocate grant resources based solely on the firm financial commitments of US\$74 million, it is the best estimate of the FMT that 20 REDD Country Participants would receive an average Readiness grant of about US\$2.0 million. The remainder of the capital in the Readiness Fund would finance essential additional services to REDD Country Participants - country implementation support², country advisory services³ and REDD methodology support⁴. The remaining capital would also finance the facility secretariat⁵ (which includes considerable travel and meeting attendance by REDD Countries) and Readiness Fund administration⁶. Given the long operational period of the FCPF and Readiness Fund in the Charter, both the secretariat and Readiness Fund administration are planned and budgeted through to 2020.

8. Assuming that the full US\$100 million will be available to the Readiness Fund as pledged, the 20 selected REDD Country Participants would eventually each receive a readiness grant, on average, of US\$3.5 million. The FMT thoroughly expects that these funds will be made available as planned, however there is clearly an issue of ‘timing’ of the funds, since they need to be available as ‘cash on hand’ to the FCPF in order for the World Bank, acting as trustee, to sign grant agreements with REDD Country Participants.

Proposals

9. **Proposal 1 (Initial Country Selection)** Given the original target level of US\$100 million, which has been reached in public pledges to the Readiness Fund, the FMT proposes that allocating grants to about 20 REDD Countries with these funds remains appropriate - leading to an average grant size to the countries of US\$3.5 million on average, which is consistent with the estimated average cost of reaching

² Country implementation support is defined as the sum of the readiness grant, the grant supervision and direct implementation support from World Bank country teams.

³ Country advisory services includes review and feedback on R-PINs and R-Plans, guidance on social and environmental safeguards and preparation of generic terms of reference, and sharing of cross-country experiences.

⁴ REDD methodology support is defined as the work of the independent Technical Advisory Panels, the FMT’s work on the valuation of emission reductions, its participation in international fora and its cooperation with other international initiatives developing REDD readiness.

⁵ Facility secretariat refers to the overall program management and expenses related to maintaining partnerships with the many stakeholders of the FCPF, the attendance of REDD Country Participants in FCPF meetings, the participation of the observer representing forest-dependent indigenous peoples and other forest dwellers, etc.

⁶ Readiness Fund administration includes the functions related to the World Bank’s role as trustee, including Annual Reports, preparation of business plans, accounting, auditing and meeting fiduciary responsibilities.

readiness (see details in Annex 1). The issues regarding timing of the resource inflows will need to be discussed by the PC, and may require phasing of grant resources commensurate with the inflows to the Fund.

10. At the same time, the FMT will make available for the PC additional estimates on how the grant size would fluctuate if additional REDD Country Participants beyond the 20 (either 25 or 30) were selected. Increasing the number of countries in this fashion, with the same assumed capitalization, has a relatively quick impact in terms of reducing the resources available to each country.

11. **Proposal 2 (Increasing the Capitalization Target)** In order to address the very strong demand coming from eligible REDD Countries, the FMT also proposes to set a new capitalization target for the Readiness Fund at US\$150 million - which would eventually enable up to 30 REDD Countries to participate fully, including receipt of a readiness grant. With the concurrence of the PC, the FMT would seek any requisite clearances within the World Bank and immediately welcome additional funding contributions.

12. For the short term, the PC would initially select 20 Eligible REDD Countries to become REDD Country Participants (14 of those have already been selected). The remaining six REDD Country Participants could be selected at the PC meetings of October 2008 and February 2009.

13. **Proposal 3a (Phasing of All Readiness Grants with Expected Inflows)** As already agreed in the July Steering Committee meeting, all selected REDD Country Participants will have access to a preparation grant of US\$200,000 to formulate their Readiness Plans (R-Plans) and are encouraged to submit their R-Plans for review and approval (please see more details in Annex 3) on a first-come-first-served basis.⁷The initial US\$200,000 grant comprises the 'first phase' of the grant allocations from the FCPF.

14. Through submission of the R-Plan, each REDD Country Participant is requested to propose in detail the use of additional grant resources, up to US\$3.5 million on average (inclusive of the US\$200,000) - which would be disbursed to the countries in both a second and third phase, as described in Annex 3. Such phasing would assist with the need of the FMT to balance grant disbursements and commitments with the timing of expected donor inflows, while enabling each of the 20 selected REDD Country Participants to move from the \$200,000 first phase to the second phase this year.

15. **Proposal 3b (Grants Allocated on First-Come-First-Served Basis, Given Signed Donor Participation Agreements)** If phasing of the grants is not employed by the PC, planning will instead need to take place based on the current firm commitments of US\$74 million. With this amount of resources, it would be possible to guarantee, at the current time, full grant commitments of up to US\$3.5 million (on average) to the first 12 countries that have their R-Plans approved.

16. As more firm commitments are received from the Donor Participants, additional countries beyond the initial 12 would be allocated the full readiness grant proposed and accepted in their R-Plan. The allocations would be based on the order in which the R-Plans were approved.

⁷ The US\$200,000 could also be the first tranche of a larger grant (of up to US\$3.5 million), in which the second tranche would only become effective upon approval of the R-Plan.

17. **Proposal 4 (Facilitating Broader Engagement of REDD Countries)** In order to maintain the momentum for REDD that is building in many countries, and the many benefits of an inclusive partnership approach, the Readiness Fund can also facilitate the continued engagement of Eligible REDD Countries beyond the 20 REDD Country Participants. In order to do so, the PC may consider selecting up to ten additional Eligible REDD Countries (still based on their R-PINs) to assume an observer status for the FCPF meetings. These observer countries would essentially be the ones that would be selected as REDD Country Participants if the new capitalization target of US\$150 million were available today. The FMT will provide estimates on the additional costs of funding this observer status.

18. As soon as additional resources towards the new US\$150 million target capitalization start to become available, the total number of REDD Participant Countries could increase beyond the initial 20, though not exceeding 30 in all. The observer countries described in paragraph 17 would then be eligible to become new REDD Country Participants and receive country services, including direct country-executed grants, in the same fashion as the first 20 REDD Country Participants.

Other Issues

19. REDD Country Participants not interested in receiving a preparation grant or readiness grant from the Readiness Fund are invited to advise the FMT, particularly if they have other resources available, so that Readiness Fund proceeds can be freed up for other REDD Country Participants. An estimate of the costs associated with participation in this fashion (in terms of other services provided by the Readiness Fund but without the direct country-executed grant) will be provided to the PC for information.

20. An important element of the partnership has always been to complement and coordinate with existing resources available for the forest sector, including from bilateral and multilateral donors, NGOs, and foundations. All REDD Countries are invited to seek the financial and technical assistance of development partners beyond the FCPF to formulate and/or implement their R-Plans.

21. The possibility to increase the capital of the Readiness Fund even further, to US\$200 million, could be revisited later based on progress over time in the Readiness Mechanism.

**Annex 1: Estimated Average Cost of Reaching Readiness
(as defined in FCPF Charter and Information Memorandum)**

Major Components of Readiness	Average Cost
REDD management	\$550,000
Develop REDD Strategy	\$450,000
Consultations	\$350,000
Environmental and social impacts assessment	\$50,000
REDD implementation framework	\$300,000
Develop Reference Scenario	\$500,000
Design Monitoring, Reporting and Verification system	\$1,000,000
TOTAL	\$3,200,000

Notes:

The average cost was estimated based on the tentative budgets provided by several REDD countries having submitted an R-PIN to the FCPF and based on the experience of World Bank staff

The total does not include the cost of additional capacity building or the implementation of the Monitoring, Reporting and Verification system, neither does it pretend to fully address major governance issues

Annex 2: REDD Country Interest in the FCPF

The following countries have expressed interest in participating in the FCPF:

Africa:

Cameroon
Central African Republic
Democratic Republic of Congo
Equatorial Guinea
Ethiopia
Gabon
Ghana
Kenya
Liberia
Madagascar
Republic of Congo
Senegal
Sierra Leone
Sudan
Tanzania
Uganda
Zambia

South Asia:

Nepal
Pakistan

South America:

Argentina
Bolivia
Chile
Colombia
Ecuador
Guyana
Paraguay
Peru
Suriname

Meso America:

Costa Rica
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Panama

Southeast Asia and Pacific:

Indonesia
Lao PDR
Malaysia
Papua New Guinea
Philippines

Thailand
Vanuatu
Vietnam

The following REDD countries have submitted an R-PIN:

Africa:

Cameroon
Central African Republic
Democratic Republic of Congo
Equatorial Guinea
Ethiopia
Gabon
Ghana
Kenya
Liberia
Madagascar
Republic of Congo
Tanzania
Uganda

South Asia:

Nepal

South America:

Argentina
Bolivia
Colombia
Guyana
Paraguay
Peru

Meso America:

Costa Rica
Mexico
Nicaragua
Panama

Southeast Asia and Pacific:

Lao PDR
Papua New Guinea
Vanuatu
Vietnam

The following REDD countries have already been selected in the Readiness Mechanism:

Africa:

Democratic Republic of Congo
Gabon
Ghana
Kenya
Liberia

Madagascar

Americas:

Bolivia

Costa Rica

Guyana

Mexico

Panama

Asia:

Lao PDR

Nepal

Vietnam

The following countries are believed to be preparing an R-PIN:

Cambodia

Thailand

Malaysia

Chile

El Salvador

Mozambique

Suriname

Zambia

Annex 3: Formulation, Submission and Approval of Readiness Plans

1. To formulate its Readiness Plan (R-Plan) using the FCPF template⁸, a REDD Country Participant is encouraged to request assistance from its development partners, whether it uses the US\$200,000 grant for preparation or not.
2. Where the FCPF has allocated grant resources to assist the REDD Country Participant formulate its R-Plan, the World Bank task team assesses the compliance of the studies and activities proposed in the R-Plan with World Bank policies and procedures, in particular the Bank's safeguard policies. This assessment should start when a first draft of the R-Plan becomes available.
3. The REDD Country Participant submits its completed R-Plan to the FCPF FMT.
4. The FMT checks the R-Plan for completeness and forwards it to a Technical Advisory Panel (TAP) and to the World Bank task team for the formal assessment of the compliance of the studies and activities proposed in the R-Plan with World Bank policies and procedures, in particular the Bank's safeguard policies.
5. The World Bank task team writes a Readiness Plan Assessment Memorandum.⁹
6. A decision meeting internal to the Bank concludes whether, based on the Readiness Plan Assessment Memorandum, the Bank has no objection to the R-Plan.
7. If the Bank has no objection to the R-Plan, the R-Plan, the TAP's review of the R-Plan and the Readiness Plan Assessment Memorandum are forwarded to the Participants Committee (PC) of the FCPF for review. The PC decides whether to approve the R-Plan on the basis of these three documents.
8. If the PC approves the R-Plan, the REDD Country Participant becomes eligible to a readiness grant of, on average, US\$3.5 million (inclusive of the original US\$200,000). However, the funds would be made available to the country in tranches disbursements, with the country suggesting in its R-Plan the milestones for disbursing the first US\$2 million, and the condition for disbursing any amount beyond that in a final tranche.
9. Before a REDD Country Participant receives its final disbursement (beyond the first US\$2 million), a progress report would need to be submitted to the FMT, consistent with the Charter. The progress report would be subject to assessment and review by the PC before any final disbursement above the US\$2 million is made. In addition, until the full US\$100 million in pledges is received into the Readiness Fund, this last tranche of disbursements would be conditional on having sufficient resources in the Readiness Fund.

⁸ The R-Plan for submission and guidance on how to fill it out is available at <http://carbonfinance.org/Router.cfm?Page=FCPF&FID=34267&ItemID=34267&ft=DocLib&ht=43249&dl=1>

⁹ The Readiness Plan Assessment Memorandum is prepared by the Bank task team and summarizes the main aspects of the R-Plan from the point of view of the Bank's Operational Policies and Procedures, including Safeguard policies, procurement, financial management, and risks to the Bank.