

Forest Carbon Partnership Facility (FCPF)

Readiness Fund

FY15 Budget Status and FY16 Proposed Budget for the FCPF Readiness Fund

May 2015

This note is designed to (A) present the status of the FY15 budget in the context of the life of the Facility and (B) present the proposed budget for FY16 of the Readiness Fund, including additional activities.

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 FY16 starting July 1, 2015. Per the Charter, budgets are approved annually. The FY15 Readiness Fund and Carbon Fund budgets were approved in July 2014. **The FY16 budget of the Readiness Fund is submitted and proposed for approval in this meeting of the PC, PC19.**

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 make up a substantial portion of the total budget.

Also within Services to REDD Countries, **Country Advisory Services** 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 the development of program cost assessment tools, the implementation of the Methodological Framework, Technical Advisory Panel (TAP) reviews of R-PPs and R-Packages. 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, 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. Legal guidance on agreements and key technical issues also fall under this category. Finally, the tracking and reporting of the Facility wide M&E framework and the arrangements for the 2015 evaluation are 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.

3. Fund Contributions

The current capitalization of the Readiness Fund is \$368.8 million as shown below.

Table 1 FCPF Contributions as of March 31, 2015 (US\$ thousands)

FCPF Readiness Fund Donor Contributions as of March 31, 2015 (in \$ thousands)									
Participant Name	Total	Outstanding*	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	5,122	1,070		1,364		2,688			
Finland	23,176	3,210			5,261	5,749			8,956
France	10,340					5,136		592	4,612
Germany	76,768		23,786	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	113,062	44,136		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	368,818	48,416	23,786	54,004	30,009	31,538	94,880	32,290	53,895

*Amounts may vary due to exchange rate fluctuations

4. Approved FY15 Budget

The FMT constructed a budget based on its forecasted work program and estimated country support needs. After reviewing the FY15 proposed budget at PC17, the PC approved the following operating budget.

Table 2 FCPF Readiness Fund Overall FY15 Annual Budget (Operating Costs)

Overall Budget (\$000s)	FY15 Proposed Budget
Readiness Trust Fund Administration	410
FCPF Secretariat	1,719
REDD Methodology Support	1,257
Country Advisory Services	2,050
Sub-total	5,436
Country Implementation Support	3,880
Sub-total	9,316
IP and CSO Program	2,065
Total Readiness Fund (including Carbon Fund Shared Costs)	11,381

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

Overall Budget shared between funds (\$000s)	FY15 Proposed Budget
Readiness Fund	10,339
Carbon Fund	1,042
Total	11,381

5. Estimated Spend for FY15

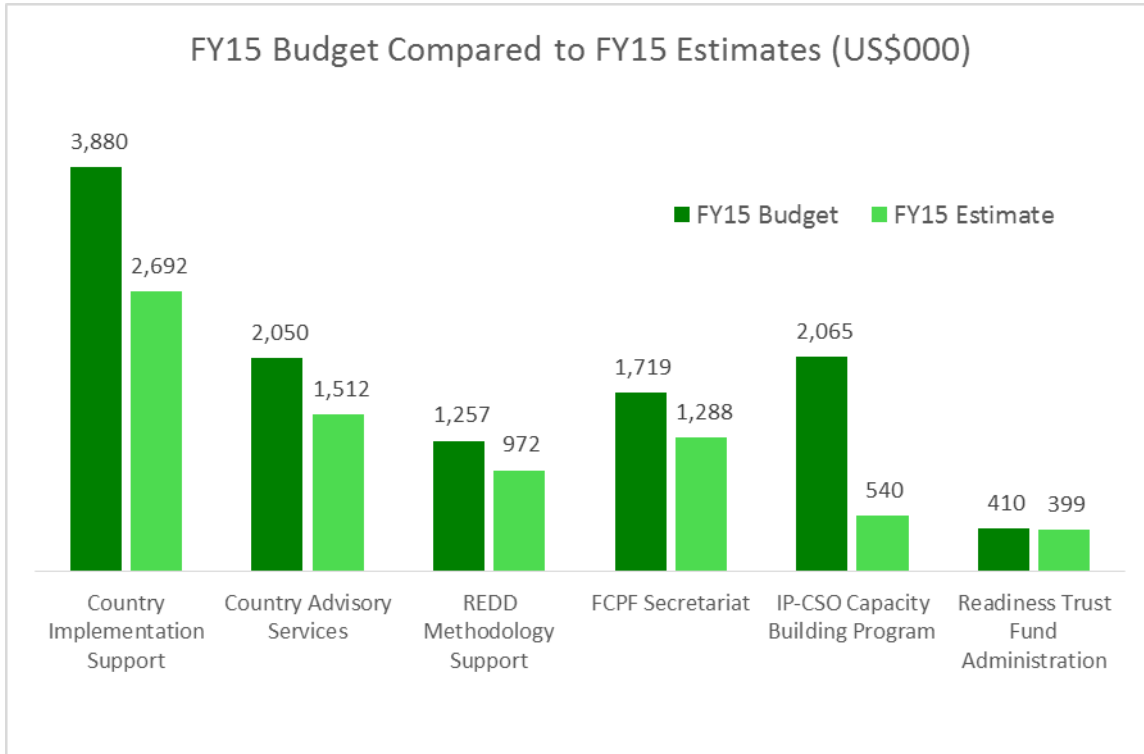
Table 4 Estimated Spend for FY15

FY15 Readiness Fund (\$000s)	FY15 Budget	FY15 Estimate	Underspend	Burn Rates
Readiness Trust Fund Administration	410	399	11	97%
FCPF Secretariat	1,719	1,288	431	75%
REDD Methodology Support	1,257	972	285	77%
Country Advisory Services	2,050	1,512	539	74%
Sub-total	5,436	4,170	1,266	77%
Country Implementation Support	3,880	2,692	1,188	69%
Sub-total	9,316	6,862	2,454	74%
IP and CSO Capacity Building Program	2,065	540	1,525	26%
Total Readiness Fund (including Carbon Fund Shared Costs)	11,381	7,403	3,978	65%

Final FY15 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY15 books not closing until June 30, 2015, the estimated expenditures are tentative. The FY15 budget is estimated to show a 65% spend against the total allocated envelope once the final figures are available. This corresponds to a forecast underspend of about \$4.0 million on the total budget of \$11.4 million. The largest portion of the forecast underspend (\$1.5 m) is attributed to delayed disbursements within the IP/CSO Capacity Building Program while the delivery mechanism is being finalized. There is also a significant forecast underspend on Country Implementation Support, the Delivery Partner costs. 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 FY15 Expenditures: Budget v Estimates (\$000s)



a. Secretariat and Trust Fund Administration

Trust Fund Administration costs are expected to be slightly under budget (97% 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 only 75%. The main contributing factor here is lower communications costs due to video production activities that were put on hold as well as fewer than anticipated large technical documents (R-Packages) that kept translation spend low.

b. Services to REDD Countries

REDD Methodology Support, Country Advisory Services, and Country Implementation Support spending rates are estimated to be around 75% of budget. This lower expense rate is attributed to two main factors: A lower than expected burden on the TAP in FY15 due to fewer than anticipated R-Packages; and, delayed work on the REDD Cost Assessment tool and Implementation of the Methodological Framework. This also reflects the FMT’s sustained focus on keeping direct country support as the primary focus, rather than work on ‘additional activities’.

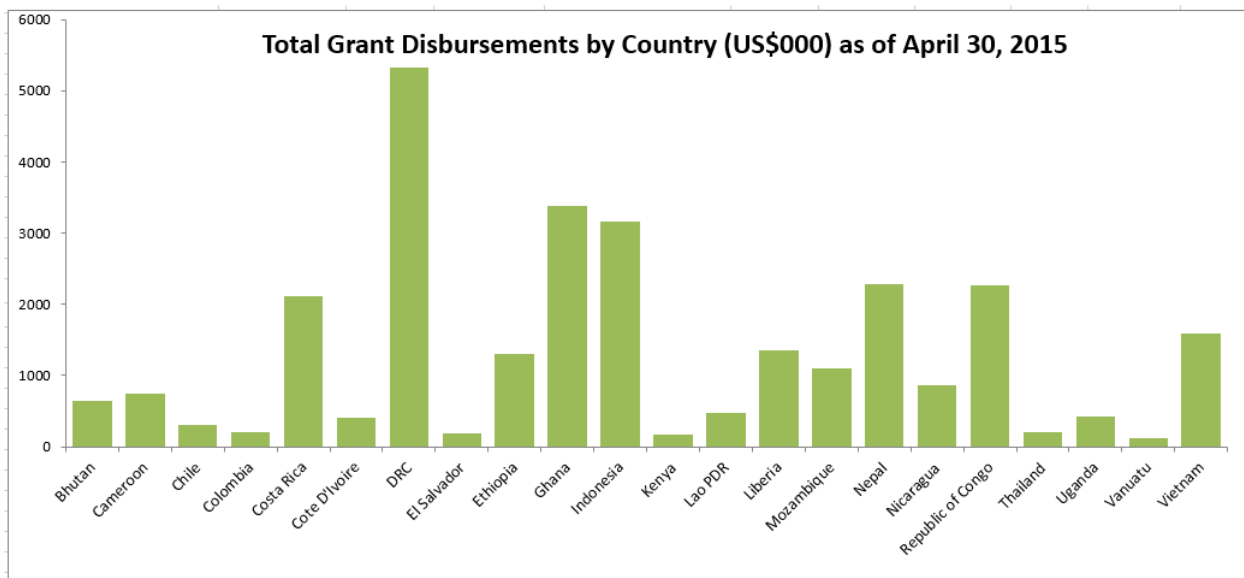
In the Country Advisory Services function, the team carried out substantial work supporting 4 countries in their submission of Mid Term Reviews potentially unlocking

additional grant funds of up to \$5 million each for work on Readiness. Significant progress was also seen in the form of 9 countries signing \$3.8 million Preparation Grants so far this FY. These milestones represent the core of the work on Country Advisory Support. While progress was good, expenses were lower than planned at 74%. A major contributing factor is that new staff members, which were planned for in the budget, did not arrive until well into the fiscal year resulting in lower expenses.

The final area of country support is Country Implementation Support. Here, lags in getting the 11 new REDD Countries set up to receive support account partially for the underspend of \$1.2 m (a burn rate of 69%). With new countries just joining in FY15, the average implementation spend in these most recent FCPF countries was much lower than their longer standing counterparts. This work of the implementing agencies is also crucial in the signature of the 9 grants so far in the current fiscal year.

Related to that is a continued uptick in grant disbursement, reaching a cumulative total of \$28.6 million disbursed through the World Bank as Delivery Partner as of April 30, 2015. Nearly \$11 million of this was disbursed in the current fiscal year. The details of the disbursements are shown in Figure 2. In addition \$26.6 million has been disbursed to non-World Bank Delivery Partners, making a total grant disbursement of more than \$55 million.

Figure 2 FCPF Total Grant Disbursements



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 26% spend rate corresponding to a \$1.5 m underrun.

The life of the program was planned 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. The program will be discussed in more detail at PC19 under agenda item 4c Status of IP/CSO Capacity Building Program.

7. Status of Additional Activities

Table 5 Additional Activities (\$000s)

Additional Activities	FY15 Budget	FY15 Estimates
Decision Support Tools: MRV/Reference Levels/Registries	329	381
Piloting Forest Governance and Grievance Redress Mechanisms	90	61
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	127
REDD+ Program Cost Assessment	104	19
TOTAL	749	588

Other than the \$52k overspend for Decision Support Tools, the additional activities were under budget with a 79% total spend rate. The main reasons for this are not moving forward with the South-South Exchange event and less activities than expected with regard to the Cost Assessment Tool. Funding will be requested for some activities so they may continue in FY16. This will require the PCs approval (see section 10 below).

8. Sources and Uses as of March 31, 2015

The overall financial status of the fund is healthy. As shown in Table 6, \$196 million of the total \$368.8 million in Committed funding is allocated for Grants to REDD Countries. \$85 million is already allocated for Operations and Country support activities. This leaves \$87.8 million in reserve with a proposed plan to allocate these funds to 16 Additional grants of up to \$5 million to countries demonstrating significant progress, together with the related support costs.

Table 6 Sources and Uses as of March 31, 2015

Summary of Long Term Sources and Uses of Readiness Funding (in \$ million, as of March 31, 2015)		
Explanation	of which	Totals
Committed Funding		368.8
Committed Uses for funds		
Commitments (grants) to REDD+ Countries (47 @ \$3.8 million)	178.6	
Additional grant funding to Costa Rica, DRC, Ghana, Indonesia, and Liberia (for REDD+ Countries that demonstrate significant progress on readiness)	25	
Less grants to inactive REDD+ Countries who did not submit R-PPs by PC14 (2 @ \$3.8) ¹	(7.60)	
Net Grant Commitments		196.0
Administrative, Operations, and Country Support of which:		
FY09-14 Actual costs	38.8	
FY15 Estimated costs	6.6	
FY16-21 Projected costs	37.6	
Reserve for Delivery Partner capacity for dispute resolution	2	
Total Uses		281.0
Estimated Reserve: Committed funding less Total Uses		87.8
Proposed Commitments		
Additional grant commitments for those that demonstrate significant progress on readiness (\$5 million grant plus 0.3 million for support costs per country for 16 additional countries (total of 21 countries))	5.3	84.8
Total potential additional uses		84.8
Total Surplus		3.0

1. Bolivia, Gabon

9. FY16 Budget Proposal

Table 7 FY16 Proposed Budget by Activity

Overall Budget (\$000s)	FY15 Budget	FY15 Estimate	FY16 Proposed Budget
Readiness Trust Fund Administration	410	399	331
FCPF Secretariat	1,719	1,288	1,229
REDD Methodology Support	1,257	972	975
Country Advisory Services	2,050	1,512	1,445
Sub-total	5,436	4,170	3,980
Country Implementation Support	3,880	2,692	3,215
Sub-total	9,316	6,862	7,195
IP and CSO Program	2,065	540	3,530
Total Readiness Fund (including Carbon Fund Shared Costs)	11,381	7,403	10,725

The overall budget request for FY16 of \$10.7 million is slightly less than FY15 (\$11.4 million) but the distribution of the funds will slightly differ. 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 7, the Readiness Trust Fund Administration budget at \$331k is marginally lower than the FY15 budget and estimated expenditure.

Similarly, the Secretariat function is budgeted to decrease to \$1.2 million. Only two PC meetings are anticipated to be expensed in FY16 which keeps costs lower. Within that, translation costs should also stay low with few anticipated large documents requiring translation. The Communications budget, including website management, as well as overall program management costs are expected to increase in FY16.

REDD Methodology, as another of the activities closest to countries, will have a budget on par with the FY15 spend at \$975k. The additional activities make up the majority of this budget (\$725k) and will be elaborated on in the next section of this note.

Country Advisory Services, the FMT work closest to the REDD countries, with a budget of \$1.4 million, will continue to be a larger portion of the budget request for FY16 due to a continued focus on country support. The team continues with 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. The 11 new countries that recently joined the FCPF solidify this focus.

Under Country Implementation Support budgeted at \$3.2 million, the work of the Delivery Partners (World Bank, UNDP and IDB) in providing direct implementation support, including technical assistance, to REDD Countries will be the second largest portion of the FY16 budget request.

As the largest single share of the FY16 budget, the IP/CSO Capacity building budget plans for all of the grant funds to be transferred to the Regional Intermediaries in FY16. The 3.53 million in funds is made up of over 3 million in Grants, \$251k in program administration, and \$231k for travel and incidentals. As mentioned in section 6 c of this note, more detail on IP/CSO Capacity Building Program will be presented at the PC meeting under agenda item 4a.

Table 8 IP/CSO Capacity Building Program

Indigenous Peoples/CSO Program (\$000s)	FY15 Budget	FY15 Estimates	FY16 Proposed Budget
Support through contracts/grants	1,637	424	3,047
Program Administration	278	79	251
Other (travel etc)	150	37	231
Total	2,065	540	3,530

10. Additional Activities

A total of \$725k is requested for the continuation of Additional Activities. In most cases these are requests for additional budget to continue activities planned but not completed in FY15.

Table 9 FY16 Proposed Additional Activities (\$000s)

Additional Activities	FY16 Proposed Budget
MRV/Reference Levels	293
Implementation of the Methodological Framework	303
REDD+ Program Cost Assessment and Financing	129
TOTAL	725

a. MRV/Reference Levels

A budget of \$293k is requested for the dissemination and application of the decision support tool and technical tutorials for reference level and forest monitoring system design.

The development of these materials were initiated in FY14 and completed in FY15. The two principal outputs of the activity are:

- i. An interactive and data-driven 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.
- 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.

The budget supports the hosting, maintenance and any necessary updates of the online tool, as well the application of the tool in-country. The technical training materials were finalized and peer-reviewed in FY15. Going forward, the budget will support translation and dissemination. As part of the dissemination, the budget includes funds for the production of recorded webinars (e-learning) as well as funds to co-finance technical workshops in collaboration with other key partners (e.g. FAO) who jointly support FCPF countries. The focus will be on the application of the material in countries preparing programs for the Carbon Fund. The work is largely to be performed by consultants under the supervision of the FMT.

b. Implementation of the Methodological Framework

This \$303k budget 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.

c. REDD+ Program Cost Assessment and Financing

This \$129k budget 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 and financing 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 programs being developed in the Carbon Fund.

11. Shared Costs of the Proposed FY16 Budget

Table 10 Proposed Shared Costs FY16

Overall Budget shared between funds (\$000s)	FY15 Budget	FY15 Estimate	FY16 Proposed Budget
Readiness Fund	10,339	6,612	9,954
Carbon Fund	1,042	791	771
Total	11,381	7,403	10,725

12. Decision at PC19

The Participants Committee is asked to approve the proposed budget for FY16 of \$10.7 million (including the \$725k for additional activities).