

Forest Carbon Partnership Facility (FCPF)

Readiness Fund

Resolving the Funding Gap

June 11, 2009

This note summarizes the current situation of the Readiness Fund with respect to funding and progress in Readiness Preparation Proposals¹, and lays out options for the PC's consideration to adjust the sources and uses of funds with a view to overcoming the funding gap.

Introduction

1. In March 2009 the Participants Committee (PC) requested the Facility Management Team (FMT) to present a note on resolving the funding gap of the Readiness Fund. They requested that the note should include a plan for the expected sources and uses of funds and an assessment of progress made or likely to be made by REDD Country Participants in preparing and implementing R-Plans (now R-PPs).
2. At that time it was estimated that in order for the Readiness Fund to provide Total Grant support of US\$3.6 million each to all 37 REDD Country Participants, the funding gap would be US\$78 million. This was based on signed Donor Participation Agreements representing a sum of US\$107 million and a preliminary estimate of costs of US\$185 million. This estimated contribution level of US\$107 million excluded Germany's public pledge of approximately US\$20 million.²
3. In the light of this funding requirement the target size of the Readiness Fund was increased to US\$185 million.

¹ The FMT is proposing to the PC that the designation "R-Plan" is replaced with a more appropriate designation - "Readiness Preparation Proposal" (R-PP). This revised terminology is used in this document.

² Germany made a public pledge to the FCPF of €40 million and has signed a Donor Participation Agreement with the FCPF Carbon Fund for €10 million. The remaining €30 million is still dependent on Parliamentary approval and signed Donor Participation Agreements. Half of this remaining balance, namely €15 million (equivalent to approximately US\$20 million), is included in the possible total funding to the Readiness Fund (shown in Annex 1).

Current Funding Situation

4. Resolution PC 2008-2 adopted at the first meeting of the Participants Committee in October 2008 established the following funding arrangement:
 - a. 20 REDD Country Participants each are granted access to a Total Grant of up to US\$3.6 million;³ and
 - b. An additional five REDD Country Participants have access to a grant of US\$200,000 for preparing their R-Plans (now R-PPs).⁴
5. Resolution PC 2/2009/1 adopted at the second meeting of the Participants Committee in March 2009⁵ further decided that pending the decision by the Participants Committee on how to address the funding gap, there would be no committed funding for the last 12 REDD Country Participants selected into the FCPF.⁶
6. There have been no additional contributions or additional donors since the March 2009 PC Meeting. Total estimated funding, excluding the German pledge, has increased marginally (as a result of exchange rate fluctuations) from US\$107 million to almost US\$110 million (see Annex 1). Almost US\$54 million of this has actually been received and, of the outstanding balance of US\$56 million, only about US\$6.1 million equivalent is subject to exchange rate fluctuations (see Annex 5).
7. If the German pledge were to be included in the total, the estimated funding would be approximately US\$130 million (see Annex 1). Germany's pledge to the Readiness Fund of the FCPF is currently the only formal pledge to the Facility which is not available as a commitment (see Annex 9). This pledge is also subject to exchange rate fluctuations (see Annex 5).
8. With the first year of FCPF operations almost completed, the estimate of costs being incurred have been compared against the initial budget projections of the Facility. Based on actual costs to date and more detailed financial forecasting, total costs, assuming Total Grant support of US\$3.6 million to 20 REDD country Participants and R-PP preparation grants of US\$200,000 to five countries, are now estimated at almost US\$112 million. A sources and uses of funds summary prepared on this basis is presented in Annex 2.
9. The estimated total costs over the life of the Readiness Fund, when compared with expected funding, indicate a small projected deficit of US\$2.1 million for the Readiness Fund (see Annex 2). Given the several assumptions required to estimate expenditures over the long term, a projected deficit of this magnitude is not a concern at this time. However, it is important to note that Bank experience with other pioneering, multi-stakeholder partnerships (e.g., the Prototype Carbon Fund) is that the complexity of the work involved does not decrease, so that costs may not decrease over time.

³ Bolivia, Cameroon, Colombia, Costa Rica, Democratic Republic of Congo, Ethiopia, Gabon, Ghana, Guyana, Kenya, Lao PDR, Liberia, Madagascar, Mexico, Nepal, Panama, Paraguay, Peru, Papua New Guinea and Vietnam.

⁴ Argentina, Nicaragua, Republic of Congo, Uganda and Vanuatu.

⁵ See

http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/7.b_Resolution_1_Country_Selection.pdf.

⁶ Cambodia, Central African Republic, Chile, El Salvador, Equatorial Guinea, Guatemala, Honduras, Indonesia, Mozambique, Suriname, Tanzania and Thailand.

10. Preliminary projections had estimated total costs per country of US\$5 million, comprised of the recipient-executed grant of US\$3.6 million plus additional services to each REDD Country Participant and fixed costs of the Facility, averaging about US\$1.4 million per country. This US\$5 million per country translated into the current target of US\$185 million for 37 countries.

11. Improved projections based on providing Total Grant support of US\$3.6 million to 36 REDD Country Participants⁷ indicate total costs lower than the previous preliminary estimates. A projection of total possible costs for the Readiness Fund on this basis is now estimated at US\$173 million. Compared with the previous estimate of US\$185 million used for establishing the target of the Fund, this represents a reduction of US\$12 million. This reduction is mostly due to the fact that some costs of operating the Facility (e.g., Readiness Fund Administration) are fixed regardless of the number of countries included in the partnership.

12. On this basis of 36 Total Grants, the estimated funding gap, excluding Germany's public pledge, would therefore stand at approximately US\$63 million (see Annex 3). If Germany's pledge were included, the estimated funding gap would stand at about US\$43 million (see Annex 4).

Readiness-Preparation Proposal (R-PP) Progress

13. At the March 2009 PC meeting, the FMT proposed the following targets for R-Plan approvals (now R-PP assessments) by the PC:

- a. By October 2009: a total of 5-10 R-Plans approved;
- b. By March 2010: a cumulative total of 15-20 R-Plans approved; and
- c. By October 2010: a cumulative total of 20-30 R-Plans approved, depending on receipt of funding.

14. Based on progress to date, it seems that these targets may be slightly over-optimistic. At this June 2009 PC meeting, three R-Plans or R-PPs will be assessed. It is not clear when these three countries will be able to sign US\$3.6 million Total Grants. Based on the projected R-PP review timing shown in Annex 8, a maximum of four more R-PPs are likely to be assessed at the October meeting, though none of these four are guaranteed to be completed in time. Although there is no reason to reduce the lower range of the targets proposed in March at the current time, it is unlikely that the upper range will be reached by these dates.

15. If the R-PP review and assessment process is slower than anticipated, inevitably R-PP implementation will be later than originally anticipated. The experience of the first few countries suggests that the R-PP preparation represents a significant effort in terms of time and money, and speed should not come at the expense of quality.

16. The slower-than-anticipated grant approval and disbursement rate is reflected in the sources and uses of funds plan in Annex 2, which indicates sufficient resources on hand to meet the cash flow requirements of 20 Total Grants of US\$3.6 million plus R-PP preparation

⁷ Excluding any grant to Tanzania, which has indicated its willingness to forego Readiness grant funding.

grants of US\$200,000 to 5 countries, even if the Netherlands' contributions are received later than projected.⁸

17. However, if Total Grants were to be provided to all 37 countries on a 'first come, first served basis', and no additional contributions were forthcoming, assuming R-PP review progress as projected in Annex 8, it is projected that the Readiness Fund would suffer from significant cash shortages in FY11 (see Annexes 6 and 7).

18. The timing of approval of R-PPs for the first group of 20 REDD Country Participants could potentially slow or hinder the allocation of grants to other countries with more advanced R-PPs. This factor should be taken into account in considering the different options for resolving the funding gap.

World Bank Trust Fund Policies on Commitment Authority

19. In accordance with World Bank trust fund policy, the standard basis of commitment, i.e., the undertaking to commit expenditure at a later date, for example through the signing of a grant agreement, is cash. Thus, it is standard practice to limit the commitments to recipients (in this case REDD Country Participants) and to other activities (in this case current and expected expenses of the Readiness Fund) to the level of contributions actually received from donors in the form of cash. Exceptions can only be made on a case-by-case basis. In the case of the FCPF Readiness Fund, it was agreed that the fund can operate on a non-standard basis of commitment; thus the level of commitments (to recipients and to other costs) is limited to the level of contributions for which the Bank has signed unconditional Donor Participation Agreements.

20. While this has provided considerable additional flexibility to the FCPF Readiness Fund, it does not allow for donor pledges to be treated in the same manner. Thus, grant agreements can only be signed when there are sufficient signed unconditional Donor Participation Agreements covering both current and expected expenses and committed grants. It is important to note that the Readiness Fund is therefore unable to treat Germany's pledge of support as a commitment under World Bank Trust Fund policies.

21. In addition, World Bank-managed trust funds are prevented from making disbursements in excess of the cash on hand. Some of the Donor Participation Agreements provide an indicative, not firm, schedule of contributions through time. This lack of certainty regarding the timing of contributions could potentially impact on the timing of disbursements to REDD Country Participants, particularly if Total Grant commitments were made to more than 20 countries.

22. For more detail, please see Annex 9.

Options for the PC's Consideration

23. This section presents four options for improving the financial situation of the Readiness Fund, two options which increase the sources of funds (through additional

⁸ Although we are assured of the full contribution from the Netherlands by 2012, the Government of the Netherlands will only announce the amount of the annual contribution each year; thus it is unclear when the remaining balance of US\$15.3 million will actually be received. For planning purposes, the FMT has estimated an equal contribution of US\$5.1 million each year, though this does not reflect an obligation on the part of the Netherlands.

unconditional or conditional contributions to the FCPF), and two options for adapting the uses of funds to the situation ('first come, first served' and 'grant plan').

Sources of Funds

Option a: Additional Contributions from Donor Participants

24. In Resolution PC 2/2009/1, the PC specified that "Donor Participants are encouraged to increase their Contributions, and additional donors are invited to contribute to the Readiness Fund." This call for more contributions from existing and new donors, in the form of the unconditional Donor Participation Agreements which have been used thus far, is still valid.

Option b: Additional Conditional Contributions from Donor Participants

25. Rather than straightforward unconditional Donor Participation Agreements, one or more donors could contribute to the FCPF on a conditional basis.

26. For example, a single donor, or a group of donors, could sign (a) Donor Participation Agreement(s) conditional upon a certain number of REDD Country Participants wishing to avail themselves of, and obtaining approval for, a Total Grant. These conditional contributions would be called upon only if required. Thus, a donor, or group of donors, could agree to provide a contribution of say US\$5 million each, conditional upon more than 20 countries being approved for a Total Grant by a certain date. Under such a scenario, if a sufficient number of REDD countries do not prepare satisfactory R-PPs by the required date, the conditional contribution would not be required. Such conditional contributions would enable the PC to approve Total Grants and related services (i.e., implementation support from Bank country teams) to countries not included in the first group of 20 countries, without necessarily committing Total Grants to all 37 countries.

27. If this option is combined with the 'First Come, First Served' option below, it could be that those countries not in the first group of 20, and thus currently without access to a Total Grant, may effectively replace countries in the first group of 20 countries that have not had a Total Grant approved by the deadline, thereby removing the need for the conditional contribution.

28. Another example of a conditional pledge is a donor signing a Donor Participation Agreement for an amount comparable to the pledge from Germany, payable only on the condition that the German pledge is not approved by their Parliament, thereby effectively guaranteeing that pledge. Upon signing of such a conditional Participation Agreement, the Bank, as FCPF Trustee, could commit to Total Grants and related services for 25 countries.

Uses of Funds

Option c: 'First Come, First Served' (Competitive Grant Allocations)

29. The PC could resolve that Total Grants could be approved competitively on a 'first come, first served' basis. At least a couple of variants exist:

- a. The most aggressive variant would be to make the competition for Total Grants effective immediately. In other words, there would no longer be guaranteed access to Total Grants for the first 20 REDD countries selected into the FCPF, and all REDD

Country Participants would be equally eligible, subject to resources being available in the Readiness Fund.

- b. Alternatively, the PC could institute the 'first come, first served' competitive principle starting from an agreed future date, which would maintain priority access to Total Grants for the first 20 countries selected into the FCPF up to a certain date. Thereafter all REDD Country Participants would be equally eligible.

30. A set of principles for providing Total Grants on the basis of equal eligibility based on the second variant was previously proposed by the FMT to the PC (in Note FMT 2009-1 of March 2009). This set of principles stated that until March 2010, priority for Total Grants would be given to the first 20 REDD Country Participants. Thereafter, all REDD Country Participants would be equally eligible. Thus, from April 2010, those REDD Country Participants not yet selected to receive Total Grants, possibly including some countries in the first group of 20 REDD Participants, would enter a competitive selection process for the remaining limited resources. Such a competitive selection process remains an option.

31. Given the speed with which acceptable R-PPs are being prepared and approved, the PC could decide to delay the start of this competitive selection process to a date that is acceptable to both REDD Participant Countries and donors, e.g., June 2010, though this would reduce the effectiveness of the adjustment.

32. Notwithstanding the date at which the 'first come, first served' competitive principle becomes operational, the PC could, by resolution, reserve the right to make exceptions and decide to allocate a Total Grant to a REDD Country Participant that is not included among the first 20 REDD Country Participants and whose R-PP is assessed to be of sufficient quality. In doing so, however, it would need to identify one of the first 20 REDD Participant Countries which does not anticipate submission of an R-PP and approval of a Total Grant prior to the start of the competitive process. That country's application for a Total Grant would then be placed in 'reserve', to be considered with other REDD Country Participants engaged in the competitive selection process.

33. It should be noted that moving to a competitive selection process immediately could require the withdrawal of World Bank country implementation support from some of the first group of 20 REDD Participants. For this reason, the FMT does not recommend this variant of the option. Implementing the competitive option from March 2010 would enable the Bank to better plan its country implementation support.

Option d: Grant Plan (Conditional Grant Allocation)

34. The Bank, as trustee of the FCPF, could potentially operate the Readiness Fund on the basis of a 'Grant Plan' whereby the PC would plan Total Grants on the basis of formal public pledges and conditional grants. On the basis of such a grant plan, currently the PC could include the German pledge of approximately US\$20 million for planning purposes and therefore plan another five Total Grants. However, the actual signature of the grant agreements by the Bank acting as trustee of the FCPF would remain conditional on the pledged contributions becoming firm commitments in the form of signed Participation Agreements.

35. It should be noted that any such pledge would need to be a formal public commitment of a donor government; and if pledges do not materialize, the Bank's reputation - and the reputation of the FCPF - is at risk, so it must be clear to all REDD Country Participants that

any grants 'planned' on this basis are not allocated and would be strictly dependent on obtaining signed unconditional Donor Participation Agreements.

36. It must also be noted that operating the Readiness Fund on the basis of such a grant plan would mean either a) incurring additional (so far unbudgeted) country implementation support and other costs for the additional countries, with no guarantee of later grant funding; or b) the opposite, i.e., not providing country implementation support services. With (b) the country level technical assistance of Work Bank teams would not be provided to 'planned' countries pending the receipt of additional donor contributions to the Readiness Fund.

37. This option could include the following variants, having to do with the timing of the grant allocation, the number of conditional grants and the choice of the recipient countries. The PC could plan conditional grants:

- a. Immediately;
- b. Once more R-PPs have been reviewed and assessed; or
- c. On a case-by-case basis, i.e., subject to individual R-PP review and assessment.

Additional Considerations

38. Regardless of the option(s) selected with respect to the sources and uses of funds, the FMT will continue to assess the availability of alternative financial sources for R-PP preparation and/or implementation, i.e., funding outside the FCFP Readiness Fund from bilateral, multilateral, foundation or NGO donors dedicated to REDD.

39. The PC has requested REDD Country Participants to disclose such availability of other resources to the FMT. As part of this approach, REDD Country Participants are expected to outline all the sources of funding already available for REDD as part of their R-PPs. Based on information received to date, a handful of countries may not require funding from the Readiness Fund, although this is still speculative. REDD Country Participants, particularly countries in the first group of 20 REDD Participants, are also encouraged to volunteer not to apply for Total Grants if they have other funding resources available.

40. Similarly, it was agreed that the FMT would issue a questionnaire to the Donor Participants, requesting information on their plans to support the REDD Country Participants bilaterally (i.e., outside of the FCPF). Unfortunately, that bilateral funding information is not available for this meeting. However, some Donor Participants will be aware of bilateral commitments to fund particular REDD Country Participants and this information, if made available at the PC meeting, may assist in reducing the funding gap. As an example, should only 32 countries need to avail themselves of the Total Grants of US\$3.6 million, the estimated funding gap would be approximately US\$47 million (see Annex 3), and US\$27 million once the German contribution is formalized (see Annex 4). This funding gap of US\$27 million could, for example, be shared by a group of four or five donors, making it an increasingly realistic option at US\$5-6 million each.

Conclusion and Recommendation

41. As recognized in Resolution PC 2/2009/1, the financial planning of the FCPF Readiness Fund requires adjustments both in terms of the sources and uses of funds. The FMT proposes the following approach:

- a. Reiterate the call of Resolution PC 2/2009/1 for additional contributions from Donor Participants and additional donors;
- b. Invite current Donor Participants and new donors to sign conditional Participation Agreements, either providing a guarantee or additional funding if sufficient countries submit satisfactory R-PPs by a certain date;
- c. Institute the 'first come, first served' competitive principle starting from March 2010 (this would maintain priority access to Total Grants for the first group of 20 countries selected into the FCPF only up to that date, thereafter all REDD Country Participants would be equally eligible);
- d. Consider the use of a grant plan on select basis where it adds value to the current situation;
- e. Request information from Donor Participants and other donors about their plans to support the REDD Country Participants bilaterally, i.e., outside of the FCPF;
- f. Request REDD countries submitting R-PPs to outline all the sources of funding already available for REDD as part of their R-PPs;
- g. Revisit the situation at each meeting to take into account new donor contributions and progress in R-PP preparation.

Annex 1					
Readiness Fund Expected Contributions (\$m)					
Donor	FY09	FY10	FY11	FY12	Total
Australia	9.5				9.5
Finland	9.0				9.0
AFD (France)	4.6	0.4			5.0
Japan	5.0	5.0			10.0
Netherlands	5.0	5.1	5.1	5.1	20.3
Norway	5.0	15.0	10.0		30.0
Spain	7.0				7.0
Switzerland	8.2				8.2
UK		5.7			5.7
USA	0.5	4.5			5.0
Total Expected	53.8	35.7	15.1	5.1	109.7
Germany (tbc)		20.2			20.2
Possible Total	53.8	55.9	15.1	5.1	129.9

Annex 2: Readiness Fund - Sources and Uses (\$m)							
Current commitment*				Excluding German pledge			
	Est	Budget	Projections				
	FY09	FY10	FY11	FY12	FY13	FY14-20	Total
Balance brought forward	0.0	47.9	42.6	21.4	16.5	12.6	0.0
Sources (excl Germany)	53.8	35.7	15.1	5.1			109.7
Uses							
Grants	1.8	35.4	31.0	4.8			73.0
Country Services and Fixed Operating Costs	4.1	5.6	5.3	5.2	3.9	14.7	38.8
Total Uses	5.9	41.0	36.3	10.0	3.9	14.7	111.8
Balance carried forward	47.9	42.6	21.4	16.5	12.6	(2.1)	(2.1)

* 20 countries with total grant of \$3.6m and 5 countries with R-PP costs of \$0.2m

Annex 3: Readiness Fund - Sources and Uses (\$m)				
Excluding German Pledge				
Number of grants	20+5¹	25	32	37²
Sources (excl Germany)	109.7	109.7	109.7	109.7
Uses				
Grants	73.0	90.0	115.2	129.6
Country Services and Fixed Operating Costs	38.8	38.8	41.6	43.6
Total Uses	111.8	128.8	156.8	173.2
Funding excess/(gap)	(2.1)	(19.1)	(47.1)	(63.5)

1. Country Services and Operating Costs include meeting costs and some review of materials related to the final group of 12 REDD Country Participants.

2. 36 grants of \$3.6m (excludes Tanzania)

Annex 4: Readiness Fund - Sources and Uses (\$m)				
Including German Pledge				
Number of grants	20+5¹	25	32	37²
Sources (incl Germany)	129.9	129.9	129.9	129.9
Uses				
Grants	73.0	90.0	115.2	129.6
Country Services and Fixed Operating Costs	38.8	38.8	41.6	43.6
Total Uses	111.8	128.8	156.8	173.2
Funding excess/(gap)	18.1	1.1	(26.9)	(43.3)

1. Country Services and Operating Costs include meeting costs and some review of materials related to the final group of 12 REDD Country Participants.

2. 36 grants of \$3.6m (excludes Tanzania)

Annex 5 - Exchange Rate Fluctuations

Exchange rate fluctuations impact on donor contributions paid or committed to the Bank in currencies other than US dollars, which has been designated as the holding currency of the fund. Contributions to the Readiness Fund have been paid in currencies other than US dollars from Australia, Finland, France, Spain and Switzerland and these have been converted into US dollars. The exchange rate between the contribution currency and US dollars obviously impacts on the actual amount of US dollars credited to the Fund. The amounts shown in Annex 1 for FY09 have actually been credited to the Readiness Fund in US dollars.

Donor contributions committed to the Bank in currencies other than the holding currency, but not yet paid, are converted to US dollars at realistic exchange rates to establish estimated levels of funding. In the case of the Readiness Fund, the UK has signed a Donor Participation Agreement for £3.5 million. This has been converted at a recent exchange rate (US\$1.62 = £1) to establish an estimated US dollar equivalent of US\$5.7 million. However, in the last year this exchange rate has fluctuated between 1.35 and 2.01, representing US\$4.7 million and US\$7.0 million respectively.

Similarly, the German pledge of €15 million has been converted at an average rate (US\$1.35 = €1) to establish the current estimated US dollar equivalent of US\$20.2 million. In the last year this exchange rate has fluctuated between 1.23 and 1.60, representing US\$18.5 million and US\$24.0 million respectively, a difference of US\$5.5 million from exchange rate fluctuations alone. The estimated equivalent in March 2009 was US\$18.9 million (using a rate of US\$1.26 = €1).

Annex 6: Readiness Fund - Sources and Uses (\$m)							
37 countries*				Excluding Germany			
	Est	Budget	Projections				
	FY09	FY10	FY11	FY12	FY13	FY14-20	Total
Balance brought forward	0.0	47.9	23.4	(27.2)	(43.3)	(48.8)	0.0
Sources (excl Germany)	53.8	35.7	15.1	5.1			109.7
Uses							
Grants	1.8	54.6	58.8	14.4			129.6
Country Services and Fixed Operating Costs	4.1	5.6	6.9	6.8	5.5	14.7	43.6
Total Uses	5.9	60.2	65.7	21.2	5.5	14.7	173.2
Balance carried forward	47.9	23.4	(27.2)	(43.3)	(48.8)	(63.5)	(63.5)

* 36 grants of \$3.6m (excludes Tanzania)

Annex 7: Readiness Fund - Sources and Uses (\$m)							
37 countries*				Including Germany			
	Est	Budget	Projections				
	FY09	FY10	FY11	FY12	FY13	FY14-20	Total
Balance brought forward	0.0	47.9	43.6	(7.0)	(23.1)	(28.6)	0.0
Sources (incl Germany)	53.8	55.9	15.1	5.1			129.9
Uses							
Grants	1.8	54.6	58.8	14.4			129.6
Country Services and Fixed Operating Costs	4.1	5.6	6.9	6.8	5.5	14.7	43.6
Total Uses	5.9	60.2	65.7	21.2	5.5	14.7	173.2
Balance carried forward	47.9	43.6	(7.0)	(23.1)	(28.6)	(43.3)	(43.3)

* 36 grants of \$3.6m (excludes Tanzania)

Annex 8: Projected R-PP Review Timing				
Country	June 2009	Oct 2009	March 2010	June 2010
FIRST 20 COUNTRIES (US\$3.6m R-Plan implementation grant)				
Bolivia			R-PP review	
Cameroon			R-PP review	
Colombia			R-PP review	
Costa Rica			R-PP review	
Democratic Republic of Congo			R-PP review	
Ethiopia				R-PP review
Gabon			R-PP review	
Ghana		R-PP review		
Guyana	R-PP review			
Kenya				R-PP review
Lao PDR			R-PP review	
Liberia			R-PP review	
Madagascar			R-PP review	
Mexico			R-PP review	
Nepal		R-PP review		
Panama	R-PP review			
Papua New Guinea			R-PP review	
Paraguay				R-PP review
Peru			R-PP review	
Vietnam			R-PP review	
SUB-TOTAL: 20	2	2	13	3
NEXT 5 COUNTRIES (US\$200,000 R-Plan preparation grant)				
Argentina			R-PP review	
Nicaragua		R-PP review		
Republic of Congo				R-PP review
Uganda			R-PP review	
Vanuatu			R-PP review	
SUB-TOTAL: 5	0	1	3	1
REMAINING 12 COUNTRIES (REDD Country Participants)				
Cambodia			R-PP review	
Central African Republic				R-PP review
Chile				R-PP review
El Salvador				R-PP review
Equatorial Guinea				R-PP review
Guatemala				R-PP review
Honduras				R-PP review
Indonesia	R-PP review			
Mozambique			R-PP review	
Suriname		R-PP review		
Tanzania			R-PP review	
Thailand			R-PP review	
SUB-TOTAL: 12	1	1	4	6
TOTAL: 37	3	4	20	10

Annex 9 - World Bank Trust Fund Policies on Commitment Authority

42. In accordance with World Bank trust fund policy, the standard basis of commitment, i.e., the undertaking to commit expenditure at a later date, e.g., through the signing of grant agreement, is cash. Thus, it is standard practice to limit the commitments to recipients (in this case REDD Country Participants) and to other activities (in this case current and expected expenses of the Readiness Fund) to the level of contributions actually received from donors in the form of cash. Exceptions can only be made on a case by case basis. In the case of the FCPF Readiness Fund, it was agreed that the fund can operate on a non-standard basis of commitment; thus the level of commitments (to recipients and to other costs) is limited to the level of contributions for which the Bank has signed unconditional Donor Participation Agreements.

While this has provided considerable additional flexibility to the FCPF Readiness Fund, it does not go further in allowing for pledges to be treated in this manner. Thus, grant agreements can only be signed when there are sufficient signed unconditional Donor Participation Agreements covering both current and expected expenses and committed grants. The Readiness Fund is therefore unable to treat Germany's pledge of support as a commitment under the Bank's Trust Fund policies.

Unconditional in this context refers primarily to conditions attached to a Donor Participation Agreement which could affect the level of contributions. For example, a Donor Participation Agreement may be qualified, being subject to legislative or budget approval. This has been the case with a few of the Participation Agreements.⁹

In addition, World Bank-managed trust funds are prevented from making disbursements in excess of the cash on hand. Some of the Donor Participation Agreements provide an indicative, not firm, schedule of contributions through time. This lack of certainty regarding the timing of contributions could potentially impact on the timing of disbursements to REDD Country Participants, particularly if Total Grant commitments are made to more than 20 countries. Cash flow issues are considered in more depth under the section Readiness-Preparation Proposal (R-PP) Progress.¹⁰

Although the Bank protects its financial liabilities by informing recipients - through the text of grant agreements - that all disbursements are subject to the availability of funds, the policies outlined above are necessary to protect the Bank from both financial and reputational risks in the event that a donor is unable, for one reason or another, to pay its full amount.¹¹

⁹ The United States signed a US\$5 million contribution, with an upfront cash payment made and a balance dependent on congressional authorization. This is also the case with US\$10 million of Norway's US\$30 million contribution which remains subject to approval by the Norwegian parliament. These qualifications have been ignored in estimating the overall funding gap of the FCPF, but cannot be ignored under the Bank's trust fund policies when signing grant agreements with REDD Country Participants.

¹⁰ For example, although we are assured of the full contribution from the Netherlands by 2012, the government of the Netherlands will only announce the amount of the annual contribution each year; thus it is unclear when the remaining balance of US\$15.3 million will actually be received. For planning purposes, the FMT has estimated an equal contribution of US\$5.1 million each year, though this does not reflect an obligation on the part of the Netherlands.

¹¹ The lending arm of the Bank, IBRD, borrows at attractive rates on the capital markets thanks to the triple-A rating it has had with credit rating agencies since 1959. It is critical to the Bank's lending operations that it maintains its triple-A credit rating and over-commitments across its numerous trust funds could potentially undermine that rating.