

Forest Carbon Partnership Facility (FCPF)

Readiness Fund

Options for 'Shared Facility Costs' in the FY10 Readiness Fund Budget

June 9, 2009

This note suggests three options for handling the 'Shared Facility Costs' of the FCPF in the FY10 Readiness Fund Budget. The FY10 Readiness Fund Budget is being presented for approval by the Participants Committee at its June 2009 meeting.

Introduction

1. The FCPF (or "the Facility") is comprised of two separate trust funds. Per the FCPF Charter, the "Shared Facility Costs" are costs incurred for activities that cut across both the Readiness Fund and Carbon Fund. As presented to the Participants Committee (PC) in October 2008, these costs will over time include the following types of activities:

- a. The FCPF Secretariat:
 - i. Overall program management and activities related to maintaining partnerships among the many stakeholders of the FCPF
 - ii. Organization of Annual Meeting and three PC Meetings per year
 - iii. Travel and expenses of REDD Country Participants in meetings
 - iv. Supporting the participation of the Indigenous Peoples' Observer
 - v. FCPF website and communications
- b. REDD Methodology Support:
 - i. The work of independent Technical Advisory Panels (TAPs) in support of FCPF Participants, advancing global topics such as valuation of emission reductions and reference scenarios
 - ii. Formal TAP review of R-PINs, R-Plans (R-PPs) and elements of country readiness packages
 - iii. TAP travel and participation in FCPF meetings
 - iv. Ensuring adequate liaison with global forestry programs, UN REDD and the international teams developing REDD methodologies
 - v. Indigenous Peoples capacity building program on REDD
 - vi. Approved contingencies

2. Section 19.1 (b) of the FCPF Charter provides that "unless the Participants Committee decides otherwise, the Readiness Fund shall bear 65 percent and the Carbon Fund shall bear 35 percent of the Shared Costs."

3. It was noted during the FY09 budget discussion (at the PC Meeting of October 2008) that appropriate phasing of the Shared Costs to be borne by the Carbon Fund would be proposed for decision by the PC.
4. The objective of 'phasing in' the costs was to ensure that early movers on the FCPF Carbon Fund do not cover a disproportionate share of administrative costs, thereby creating a disincentive to financial contributions to the Carbon Fund.

Current Context of the Carbon Fund

5. As noted in the March 2009 PC Meeting, regulatory uncertainty and the current financial crisis have posed challenges in fund raising for the FCPF Carbon Fund, especially from private entities. However, the prospects of the Carbon Fund over the medium term appear strong. Many private and public entities continue to show strong interest in REDD transactions and in the Carbon Fund of the FCPF.
6. It will still take some time for the first REDD countries to be ready for REDD and deemed ready for carbon transactions by the PC. By that time, we expect to have more regulatory clarity on REDD under the UNFCCC.
7. While the Carbon Fund has existing financial commitments which place it in a good position to pilot and test carbon transactions, it has not yet been declared operational and will need to raise more funds for its target volume.
8. The Carbon Fund is expected to be declared operational before the October 2009 Annual Meeting.
9. After the Carbon Fund is declared operational, the Carbon Fund Participants will separately approve the budget for operation of the Carbon Fund. This is targeted for the October 2009 Annual Meeting. That budget will include fund development and fund administration costs and eventually any costs related to specific carbon transactions. It will also include the 'phased in' portion of Shared Facility Costs to be borne by the Carbon Fund.
10. A note on Carbon Fund strategy and options will be prepared prior to the October Meeting, and the first meeting of Carbon Fund Participants will take place at that time.

Proposed Options for PC Decision in June 2009

11. Given that the Carbon Fund is not yet operational, the FMT proposes that the FY09 Shared Facility Costs, which are currently estimated at \$1.82 million, be fully paid out of the Readiness Trust Fund. While this represents 100 percent of the total FY09 Shared Costs, compared to a possible 65 percent (or \$1.2 million) if the costs were fully shared between the Readiness and Carbon Funds, it does not translate to a significant increase in the Readiness Fund's FY09 budget. Since expenditures were lower than expected for both types of Shared Costs (FCPF Secretariat and REDD Methodology Support), the total expense is only about \$150,000 more than the \$1.69 million that had been planned in the budget approved by the PC for FY09.
12. As FY09 is coming to a close on June 30, 2009, and the Carbon Fund has not been operational during any of FY09, the concurrence of the PC to this proposal is being sought by the FMT on a no-objection basis.
13. In addition, the PC is requested to consider the following options for decision related to the FY10 budget of the Readiness Fund:

1. **Option 1: Charging 100 percent of Shared Facility Costs to the Readiness Fund in FY10, and phasing the share to 65 percent from FY11 onwards.** With this option, the 65/35 ratio of the FCPF Charter is delayed by one year and then fully implemented from FY11 onwards. Beginning in FY11 (July 1, 2010), the Readiness Fund would pay 65 percent of all Shared Costs and the Carbon Fund would pay 35 percent of all Shared Costs;
2. **Option 2: Implementing the 65/35 ratio of Shared Facility Costs immediately in FY10 into both the Readiness and Carbon Fund budgets.** This option would save costs for the Readiness Fund compared to Option 1 above (currently estimated at \$1.1 million), and create a liability in that amount for the Carbon Fund. At the end of FY10, and once the Carbon Fund is declared operational, it would reimburse the Readiness Fund for this amount; or
3. **Option 3: A 'split' of the above two options.** In this option, the Readiness Fund would pay 100 percent of the Secretariat-related costs and 65 percent of the REDD Methodology Support costs in FY10, with the Carbon Fund responsible for the remaining 35 percent of the REDD Methodology Support costs. This option begins to phase in the Shared Facility Costs during FY10, with the expectation that beginning in FY11 the 65/35 ratio of Shared Costs in the Charter will be fully implemented. Option 3 represents a cost savings to the Readiness Fund, relative to Option 1, of about \$0.6 million and creates a liability in that amount for the Carbon Fund in FY10.

14. The FMT recommends adoption of Option 3, which phases in the Shared Facility Costs during FY10, while at the same time limiting the burden on the Carbon Fund in its first year of operations, when its capital is still modest and a special effort needs to be made to raise more funds in order to reach the capitalization target.