

Forest Carbon Partnership Facility (FCPF)

Note on Capping Shared Costs for the Carbon Fund

March 14, 2011

This note presents a proposal from the FMT on the capping of Shared Costs for the Carbon Fund.

What are Shared Costs?

1. Shared Costs are defined in the Charter (Section 1.1, paragraph 69) as “the costs and expenses incurred in the administration of the Facility which include, but are not limited to, the Participants Assembly, meetings of the Participants Committee, Steering Committee and the activities undertaken by the Facility Management Team for both the Readiness Fund and the Carbon Fund”.

2. Shared Costs across both the Readiness Fund and Carbon Fund include the following:

FCPF Secretariat Costs

- Overall program management and activities related to maintaining partnerships among the many stakeholders of the FCPF;
- Organization of the FCPF meetings (one Participants Assembly (PA) meeting and approximately three Participants Committee (PC) meetings per year);
- Travel and expenses of REDD Country Participants to attend FCPF meetings;
- Supporting the participation of the Indigenous Peoples’ Observer in the FCPF’s PA and PC; and
- Knowledge management, including FCPF website and communications.

REDD Methodology Support Costs

- Work of the ad hoc Technical Advisory Panels (TAP) in support of FCPF Participants, advancing global topics (e.g., valuation of emission reductions, opportunity costs, monitoring, reference scenarios/levels);
- TAP review of Readiness Preparation Idea Notes, Readiness Preparation Proposals and elements of country Readiness Packages;
- TAP travel and participation in FCPF meetings;
- Ensuring adequate liaison with UN-REDD Programme and other international REDD+ programs;
- Indigenous Peoples capacity building program on REDD (approved FY09-13); and
- Contingency (approved FY09-13).

Apportionment of Shared Costs

3. The Charter states (Section 19.1(b)) that “unless the Participants Committee decides otherwise, the Readiness Fund shall bear 65% of the Shared Costs and the Carbon Fund shall bear 35% of the Shared Costs”.

4. Through various budget resolutions, including the latest resolution PC6/2010/8 of July 2010, the PC has thus far fully waived the Shared Costs borne by the Carbon Fund, thus paying 100% from the Readiness Fund with nothing being charged to the Carbon Fund. That resolution states that “the Readiness fund will cover 100 percent of the Shared Costs until the Carbon Fund becomes operational in FY11”.

Approval of Shared Costs

5. As per the FCPF Charter, the Annual Budget of the Readiness Fund and the Shared Costs are approved by the PC (Section 11.1(o)) and since the Shared Costs are approved by the PC, some current and prospective Carbon Fund Participants are concerned that they may have to bear costs that are not within their control. All other costs in the Carbon Fund Annual Budget will be approved by the Carbon Fund Participants.

Proposal

6. The FMT is therefore proposing to cap the level of Shared Costs that can be charged to the Carbon Fund over the term of the Facility (up to December 31, 2020).

7. The current long-term projections of costs indicate total Shared Costs for both Funds (the Readiness Fund and the Carbon Fund) from the Operational Date of the Carbon Fund over the full term of the Facility (that is, to December 31, 2020) of approximately US\$21 million. On the agreed cost sharing basis (with 35% charged to the Carbon Fund), the Shared Costs to be charged to the Carbon Fund over the full term of the Facility are therefore estimated at approximately US\$7 million.

8. The FMT proposes to cap the level of Shared Costs that can be charged to the Carbon Fund over the term of the Facility at \$12 million. Any additional Shared Costs over and above this limit that would normally have been charged to the Carbon Fund under the agreed cost sharing mechanism would be charged to the Readiness Fund.

9. Assuming the Carbon Fund is charged 35% of total Shared Costs from operationalization of the Carbon Fund, this cap of US\$12 million would only be exceeded if total Shared Costs over the next 10 years were above US\$34 million. When compared with the current projections over that same period of US\$21 million, Shared Costs would need to increase above current projections by US\$13 million before it would be necessary to apply this cap. This level of cap (US\$12 million) thus provides the necessary assurances to the Carbon Fund Participants.

Draft Resolution

10. The FMT has therefore drafted the attached resolution, capping Shared Costs for the Carbon Fund at US\$12 million, for consideration by PC members at PC8.

**FOREST CARBON PARTNERSHIP FACILITY (FCPF)
EIGHTH PARTICIPANTS COMMITTEE MEETING
March 24-25, 2011
Dalat, Vietnam**

Resolution PC/8/2011/x

Capping Shared Costs for the Carbon Fund

Whereas,

1. Section 1.1(69) of the Charter Establishing the FCPF (the “Charter”) defines Shared Costs as ‘the costs and expenses incurred in the administration of the Facility which include, but are not limited to, the Participants Assembly, meetings of the Participants Committee, Steering Committee and the activities undertaken by the Facility Management Team for both the Readiness Fund and the Carbon Fund’.
2. Section 19.1(b) of the Charter states that ‘unless the Participants Committee decides otherwise, the Readiness Fund shall bear 65% of the Shared Costs and the Carbon Fund shall bear 35% of the Shared Costs’.
3. In approving the FY11 Budget (Resolution PC6/2010/8), the Participants Committee approved that the Readiness Fund would cover 100 percent of the Shared Costs until the Carbon Fund becomes operational in FY11. After the Carbon Fund becomes operational the Carbon Fund Participants shall pay 35 percent of the Shared Costs that are incurred, with the Readiness Fund paying 65 percent as of that time.
4. Long-term projections of costs indicate total Shared Costs for both funds from the Operational Date of the Carbon Fund over the full term of the Facility (that is, to December 31, 2020) of approximately US\$21 million. On the agreed cost sharing basis, the Shared Costs to be charged to the Carbon Fund over the full term of the Facility (that is, up to December 31, 2020) are therefore estimated at approximately US\$7.4 million.
5. Since the Shared Costs are approved as part of the approval of the Annual Budget of the Facility by the Participants Committee, the Carbon Fund Participants do not have full control of the level of Shared Costs that can be charged to the Carbon Fund. Therefore, the Carbon Fund Participants request the Participants Committee to limit the amount of Shared Costs borne by the Carbon Fund Participants over the term of the Facility.

The Participants Committee,

Decides that Shared Costs charged to the Carbon Fund from the Operational Date of the Carbon Fund over the full term of the Facility will not exceed US\$12 million. Any additional Shared Costs over and above this limit that would normally have been charged to the Carbon Fund under the agreed cost sharing mechanism will be charged to the Readiness Fund.