

Forest Carbon Partnership Facility (FCPF) Carbon Fund

FY23 Budget Status and FY24 Proposed Budget for the FCPF Carbon Fund

May 2023

This note is designed to (a) present the status of the FY23 budget and (b) present the proposed budget for FY24 of the Carbon Fund for approval by the Carbon Fund Participants.

1. The Budget Cycle

The timing for the FCPF Carbon Fund Budget is based on the World Bank fiscal year (July 1 - June 30), with FY24 starting on July 1, 2023. Per the Charter, budgets are approved annually. The Carbon Fund budget is approved by the Carbon Fund Participants (CFPs). **The FY24 budget of the Carbon Fund is submitted and proposed for approval at CF26.**

The FCPF Carbon Fund budget is built around two core activity types. Those are Carbon Fund Administration and ERPA Costs.

- a. The **Fund Administration** work consists of functions related to the World Bank's role as Trustee of the Carbon Fund, including:
 - Fund strategy and management, fundraising
 - Preparing budgets, business plans and longer-term financial projections (sources and uses)
 - Legal guidance on Methodological Framework, General Conditions and Legal Agreements
 - Accounting, resource management, contracting, contributions management
 - Carbon Fund Meeting costs, including costs of organization and logistics
 - Preparation of Annual Report and semi-annual monitoring and reporting
 - FMT staff time spent on Carbon Fund activities, programs, and stakeholders
 - Carbon Fund Knowledge Management and Communications
 - Revision and maintenance of FCPF requirements related to the generation and issuance of ER Credits, a.k.a. FCPF standard.
- b. The **ERPA Costs** category contains the bulk of the operating budget as it supports the selection and development of ER Programs and costs of supervision of ERPAs. There are three main categories of ERPA costs envisaged as follows:

ERPA Costs – Selection & Development of ER Programs:

- Support to CF Participants in the ER Program selection process
- Assistance to REDD Country Participants in preparing ER Programs
- Due diligence for World Bank operational policies and procedures (including social and environmental safeguards)
- Drafting of ERPA for the ER Program, based on the General Conditions and pricing/valuation approaches agreed by the PC
- Development phase usually comes to an end upon signature of an ERPA (starting the next phase of supervision and implementation support); or in some cases, if an ERPA is not agreed, when the ER program is dropped from the portfolio

ERPA Costs – Implementation and Supervision Support:

- Implementation support to assist REDD Country Participants in keeping ER programs on track

- Supervision activities to help ensure that the ER program complies with applicable World Bank operational policies and procedures as well as specific ERPA provisions, including meeting Conditions of Effectiveness, Monitoring and Reporting, and Benefit Sharing

ERPA Costs – Carbon asset creation, monitoring, verification, and issuance:

- Support to REDD Country monitoring of ERs and preparation of Monitoring Reports
- Ensuring the completeness of Monitoring Reports and adherence to ERPA and FCPF requirements
- Support to and costs of independent Validation of ER Programs and Verifications of ERs
- Third Party Monitoring costs
- Making payments and maintaining accounts for ERs delivered to the Tranche(s) and Participants of the Carbon Fund
- Infrastructure to enable REDD Countries to transfer and commercialize their excess ERs to third-party buyers

2. Shared Costs

Upon the set-up of the FCPF an agreement 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 and 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 was also established (Approved by the PC through Resolution PC/8/2011/8). Any additional Shared Costs in excess of \$12 million over the lifetime of the Readiness Fund will therefore be wholly charged to the Readiness Fund.

3. Fund Contributions

The current capitalization of the fund is \$874.5 million¹.

Table 1. FCPF Carbon Fund Contributions as of March 31, 2023

FCPF Carbon Fund Donor Contributions as of March 31, 2023 (in \$ thousands)															
Participant Name	Total	Outstanding	FY21	FY20	FY19	FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10	FY09
Australia	18,392											5,658	12,735		
BP Technology Ventures	5,000												5,000		
Canada	5,015											5,015			
European Commission	6,709													362	6,347
France	5,114								114				5,000		
Germany	321,295			55,974	57,265	29,616	54,771	13,329	32,108	27,280	6,556	15,443	21,125	3,819	4,009
Norway	297,087			27,166	27,618	12,640		58,352			161,310				10,000
Switzerland	10,796											10,796			
The Nature Conservancy	5,000														5,000
United Kingdom	181,582		71,489	92,153									17,940		
United States of America	18,500						4,500				4,000		10,000		
Committed Funding	874,492	0	71,489	175,292	84,883	42,256	59,271	71,681	32,222	27,280	171,866	36,912	71,800	4,181	25,356

¹ Until now, per the PA Agreements of all CFPs, the investment income from the Carbon Fund was directed towards the Readiness Fund. Given that the Readiness Fund closed in December 2022 (the Trustee account will close in June 30, 2023), the investment income will be re-directed back to the Carbon Fund again.

4. Common Costs

Common costs are the costs that are not specific to one Tranche i.e., they are to be borne jointly by the two Tranches. Since both Tranches have made decisions jointly to date, except for with regard to the Nicaragua ER Program, Common Costs include all costs to date and all FY24 budgeted costs. The amount of the Tranche A costs relating to the Nicaragua program from the date of the Nicaragua ER program resolution (July 11, 2019) to April 30, 2021, when the program was discontinued, of \$3.7k are considered immaterial. Thus, all Carbon Fund costs to date will continue to be considered as Common Costs.

It was agreed at CF4 in Santa Marta, Colombia in June 2012 that Common Costs would be apportioned between the Tranches (and between the Participants) on a pro rata share based on signed commitments at First Closing (shortly before signing first ERPA). Current pro rata apportionments, based on contributions as of March 31, 2023, would be as follows:

Table 2. Carbon Fund Pro Rata Apportionments (US\$000)

Participant Name	Total	%age
Tranche A		
Australia	18,392	2.103%
BP Technology Ventures	5,000	0.572%
The Nature Conservancy	5,000	0.572%
United States of America	18,500	2.115%
Tranche A Committed Funding	46,892	5.362%
Tranche B		
Canada	5,015	0.573%
European Commission	6,709	0.767%
France	5,114	0.585%
Germany	321,295	36.741%
Norway	297,087	33.973%
Switzerland	10,796	1.235%
United Kingdom	181,582	20.764%
Tranche B Committed Funding	827,599	94.638%
Total Committed Funding	874,492	100.000%

5. Approved FY23 Budget

The Carbon Fund Participants (CFPs) approved the following operating budget of \$9.3 million for FY23 (CFM/Electronic/2022/1). Subsequently the PC approved the Shared Costs budget for the facility as a whole, which translated into a Shared Costs budget for the Carbon Fund for FY23 of \$0.6 million. The total Carbon Fund budget for FY23 was therefore about \$9.9 million as shown in Table 3 below.

Table 3. FCPF Carbon Fund Overall FY23 Annual Budget (Operating Costs in US\$000)

Carbon Fund Costs (\$000s)	FY23 Budget
Carbon Fund Admin	2,698
ERPA Costs – Selection & Development of ER Programs	
Carbon Fund Country Advisory Support	939
Program Development - enhanced ER-PIN/PDs	-
ERPA Costs - Supervision	2,688
Validation/Verification Costs	1,582
Registry Costs	1,387
Sub-total	9,294
Shared Costs	642
Total Carbon Fund Costs	9,936

6. Total Expenses to Date

Below is an overview of costs of the Carbon Fund from inception to date, including costs not charged to the CFPs shown in the two top shaded rows.

Table 4. Expenses to Date (in US\$'000 as of March 31, 2023)

Budget Line/Category of Costs (\$000s)	Pre-FY09	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23 Estimate	FY24 Proposed Budget	Total
Development Costs absorbed by WB	2,350																	2,350
Shared Costs paid by the Readiness Fund		635	1,728	1,262														3,625
Shared Costs paid by the Carbon Fund		-	-	-	1,069	1,236	1,159	821	797	1,172	1,128	1,211	965	920	816	706	-	12,000
Carbon Fund Administration			183	366	470	652	626	741	555	657	696	864	1,076	1,252	1,091	1,311	4,401	14,941
Additional Activity on Private Sector Engagement											162	371	-	-	-	-	-	533
Registry Costs												100	758	203	622	624	1,516	3,823
Validation/Verification Costs															181	389	478	2,067
ERPA Costs - Selection																		3,115
Carbon Fund TAP								23	440	514	463	533	41	-	-	-	-	2,014
ERPA Costs - Development																		14,755
Carbon Fund Country Advisory								350	1,290	1,691	2,331	2,396	1,812	1,328	746	857	1,954	14,755
ER-PD Development					229	273	910	2,351	2,585	2,347	2,161	1,028	712	81	24	-	-	12,701
ERPA Costs - Supervision												140	284	969	1,923	2,403	3,141	8,859
Total			183	366	1,539	2,117	2,058	2,846	5,432	6,619	7,126	7,777	5,964	5,565	5,668	6,402	13,079	72,740

It is worth noting that:

- The World Bank paid \$2.35 million for FCPF development costs (from early design meetings in 2006 through June 2008)
- The Readiness Fund has waived and paid \$3.6 million to cover what would have been the 35% of Shared Costs for the Carbon Fund from FY09 to FY11
- Expenses forecast to be charged against the Carbon Fund from FY10 to FY24 are \$72.7 million, of which \$12 million are for shared costs.

7. Forecast Spend for FY23

Final FY23 expenditures will be reflected in the Annual Report. With the FY23 books not closing until June 30, 2023, the estimated expenditures are tentative.

Table 5. Estimated Spend for FY23

Carbon Fund Costs (\$000s)	FY23 Budget	FY23 Estimate	Underspend	Spend Rate
Carbon Fund Admin	2,698	1,311	1,387	49%
ERPA Costs – Selection & Development of ER Programs				
Carbon Fund Country Advisory Support	939	857	82	91%
Program Development - enhanced ER-PIN/PDs	-	24	(24)	
ERPA Costs - Supervision	2,688	2,403	284	89%
Validation/Verification Costs	1,582	478	1,104	30%
Registry Costs	1,387	624	764	45%
Sub-total	9,294	5,696	3,598	61%
Shared Costs	642	706	(64)	110%
Total Carbon Fund Costs	9,936	6,402	3,534	64%

8. Overspends and Underspends

The FY23 spend is projected to be 64% of the total FY23 allocated envelope once the final figures are available. The underspend of about \$3.5 million out of the total budget of \$9.9 million is mostly accounted for by the low spend on Carbon Fund Admin, Validation/verification costs, and Registry Costs. Please see rationale below:

a. Carbon Fund Administration

Fund Administration costs are estimated to be around 49% of budget. The main contributing factor is lower than expected spend on knowledge and communications activities, and the evaluation which was launched a bit later than originally anticipated.

b. Carbon Fund Country Advisory Support

The budget for Country Advisory Support was about \$0.9 million. The FMT has provided the anticipated level of support as countries work to meet conditions of ERPAs effectiveness, prepare monitoring reports and respond to verifiers. The estimated spend is 91% of the budget.

c. ERPA Costs – Supervision

Budget was planned for 15 programs now in the supervision phase. The estimated spend in ERPA Supervision is estimated to be around 89% of budget.

d. Validation and verification

Budget was planned for 11 ER Programs under validation and/or verification, but key milestones of these have not advanced as expected. The estimated spend in validation and verification is estimated to be around 30% of the budget.

e. Additional Activity on Registries

The CFPs approved \$1.3 million for work on Registries in FY23. The estimated spend is 45% of the budget. The World Bank ER transaction registry, referred to as the Carbon Assets Tracking System (CATS), is fully operational (stabilization phase) since June 2020. However, Phase 2 of the development of the registry, which was partially budgeted for in FY23, has not yet started and will now begin in FY24.

f. Shared Costs

As explained in section 2, Shared Costs are directly related to the Readiness Fund expenses in two key cross cutting areas: FCPF Secretariat and REDD Methodology Support costs. Since the Readiness Fund expenses are estimates at this time, the Shared Costs for the Carbon Fund are also estimates and may change when the final FY23 expenses are recorded. The current estimate projects expenditure to be at \$0.7 million.

9. Sources and Uses as of March 31, 2023

The overall financial status of the fund is healthy. As shown in Table 6, of the total contributions of \$874.5 million, about \$767 million is available for the purchase of ERs. Estimated costs of the Fund over its lifetime are \$108 million, or about 12% of the total funds. The average ER amount per ER Program is projected to be \$51.1 million, assuming 15 programs are developed.

Table 6. State of the Fund – March 31, 2023

Carbon Fund Sources and Uses Summary (\$m)	
	Current Situation
Sources (\$m)	874.5
Number of Lots (#)	18
Number of ER Programs expected (#)	15
Uses	
Costs over Fund Lifetime	
Fixed Costs (FY10 to FY26)	33.5
ER Program Costs	64.4
ER Program's Reversal Management Mechanism	10.0
Total Costs	107.9
Available for Purchase of ERs	766.6
Average ER Program	51.1

10. FY24 Budget Proposal

Table 7. FY24 Proposed Budget by Activity

Carbon Fund Costs (\$000s)	FY23 Budget	FY23 Estimate	FY24 Proposed Budget
Carbon Fund Admin	2,698	1,311	4,401
ERPA Costs – Selection & Development of ER Programs			
Carbon Fund Country Advisory Support	939	857	1,954
Program Development - enhanced ER-PIN/PDs	-	24	-
ERPA Costs - Supervision	2,688	2,403	3,141
Validation/Verification Costs	1,582	478	2,067
Registry Costs	1,387	624	1,516
Sub-total	9,294	5,696	13,079
Shared Costs	642	706	-
Total Carbon Fund Costs	9,936	6,402	13,079

The proposed overall budget for FY24 is about \$13 million. The FY24 proposed budget reflects the next important goal after ERPA signings which is to support countries in ER delivery, make results-based payments and implement benefit sharing arrangements.

a. Carbon Fund Administration

As shown in Table 7, the Carbon Fund Administration budget of \$4.4m reflects an increase when compared with the FY23 budget of about \$1.7m. The fund administration work consists of functions related to the World Bank's role as Trustee of the Carbon Fund. Additional staff time is needed in this function to ensure ERPA Covenants have been properly met, review Benefit Sharing Plans and its implementation, review monitoring and verification reports, provide guidance to task teams and countries in meeting ERPA and FCPF requirements, and managing the FCPF requirements related to issuance of FCPF ER Credits or FCPF Standard. This proposal also includes CF meetings costs. At CF24, following requests from FCPF countries, Carbon Fund Participants supported a proposal by the FMT to increase the Carbon Fund Knowledge Management and Communications budget over FY23-26 to enable continuation of key FCPF knowledge sharing and generation activities following the closure of the Readiness Fund in 2022. Proposed FY24 KM and Communications activities build on this initial proposal and include activities related to global knowledge events, south-south knowledge exchanges (SSKEs), training and capacity strengthening, new knowledge products, and strategic communications. Specific activities include, for example: a global Knowledge Day involving both previous and current FCPF countries as well as other sector stakeholders (date/format to be determined); a dialogue event on enabling Indigenous Peoples and Local Communities to engage in climate discourse and action; trainings and SSKEs on Benefit Sharing Plans, MRV, carbon market engagement and/or other priority topics; support for analyses and dissemination of Next Generation MRV; and increased visibility, outreach and communications products and activities including as related to the FCPF Standard and private sector engagement. The evaluation is also budgeted under Carbon Fund Administration.

- b. Country Advisory Support** comprises staff time and travel in providing support to countries delivering their ER programs. The focus on ER delivery, make results-based payments and implement benefit sharing arrangements require additional resources to maximize ERPA delivery and access to markets. The budget for the Country Advisory Support cost category is \$1.9 million.

c. ERPA Costs – Supervision of ER Programs

The supervision budget for FY24 includes budget for 15 programs now in the supervision phase. This budget covers staff in task teams primarily from the World Bank's Environment Global Practice and the World Bank's Social Development Global Practice. Typically, task teams comprise at a minimum a Task Team Leader (TTL), an Environmental Safeguards Specialist and a Social Safeguards Specialist, as well as a Financial Management Specialist. The activities covered here are in essence program supervision and implementation support, ensuring all requirements of the program, ERPA, benefit sharing plan, reporting and safeguards are met. For FY24 about \$3.1m have been budgeted for this work.

d. Validation/Verification Costs

The FY24 Budget proposal includes about \$2 million for validation and verification costs for about 14 countries. Third Party Monitoring costs are also budgeted under this category.

e. Registry Costs

The Central Transaction Registry, Carbon Assets Tracking System (CATS) is fully operational (stabilization phase) since June 2020. This budget of \$1.5m is an estimate to ensure funds are available to enable the registry team to i) ensure proper communication and dissemination of information on the registry, ii) potentially provide linkages between different registries, iii)

provide support on the process for Monitoring Reports and payments for ERs, and iv) system maintenance costs.

11. Decision for the CF26 Meeting

The Carbon Fund Participants are asked to approve the proposed Carbon Fund budget for FY24 of \$13.1 million.