

Forest Carbon Partnership Facility (FCPF) Carbon Fund

FY24 Budget Status and FY25 Proposed Budget for the FCPF Carbon Fund

May 2024

This note presents (a) the status of the FY24 budget and (b) the proposed budget for FY25 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 FY25 starting on July 1, 2024. Per the Charter, budgets are approved annually. The Carbon Fund budget is approved by the Carbon Fund Participants (CFPs). **The FY25 budget of the Carbon Fund is submitted and proposed for approval at CF28.**

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
 - Preparing budgets, business plans and longer-term financial projections (sources and uses)
 - Legal guidance on FCPF Standard including 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 covers costs of supervision of ERPAs and carbon asset creation, monitoring, verification, and issuance. There are two main categories of ERPA costs:

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 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
- Country Excess ER Monetization Support and Non-Carbon Development Outcome Certification

2. Fund Contributions

The current capitalization of the fund is \$874.5 million. Given that the Readiness Fund is now closed, starting in FY23, any interest generated from the Carbon Fund contributions remains in the Carbon Fund.

Table 1. FCPF Carbon Fund Contributions as of March 31, 2024

| FCPF Carbon Fund Donor Contributions as of March 31, 2024 (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 |

3. 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, Common Costs include all costs to date and all FY25 budgeted 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, 2024, 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% |

4. Approved FY24 Budget

The Carbon Fund Participants (CFPs) approved the following operating budget of \$13.079 million for FY24 (CFM/26/2023/1) as shown in Table 3 below.

Table 3. FCPF Carbon Fund Overall FY24 Annual Budget (Operating Costs in US\$000)

| Carbon Fund Costs (\$000s) | FY24 Budget |
|--------------------------------------|---------------|
| Carbon Fund Admin | 4,401 |
| Carbon Fund Country Advisory Support | 1,954 |
| ERPA Costs - Supervision | 3,141 |
| Validation/Verification Costs | 2,067 |
| Registry Costs | 1,516 |
| Total Carbon Fund Costs | 13,079 |

5. 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, 2024)

| Budget Line/Category of Costs (\$000s) | Pre-FY09 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 Estimate | FY25 Plan | 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 | 1,998 | 4,066 | 3,500 | 18,793 |
| Additional Activity on Private Sector Engagement | | | | | | | | | | | 162 | 371 | - | - | - | - | - | - | 533 |
| Registry Costs | | | | | | | | | | | | 100 | 758 | 203 | 622 | 635 | 904 | 857 | 4,079 |
| Validation/Verification Costs | | | | | | | | | | | | | | | | 181 | 389 | 298 | 1,373 |
| ERPA Costs - Selection | | | | | | | | | | | | | | | | | | | 2,000 |
| Carbon Fund TAP | | | | | | | | 23 | 440 | 514 | 463 | 533 | 41 | - | - | - | - | - | 2,014 |
| ERPA Costs - Development | | | | | | | | | | | | | | | | | | | |
| Carbon Fund Country Advisory | | | | | | | | 350 | 1,290 | 1,691 | 2,331 | 2,396 | 1,812 | 1,328 | 746 | 958 | 1,828 | 1,875 | 16,606 |
| 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 | 2,584 | 2,935 | 3,301 |
| 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 | 7,203 | 11,106 | 11,533 | 83,101 |

It is worth nothing 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 FY25 are \$83.1 million, of which \$12 million were for shared costs.

6. Forecast Spend for FY24

Final FY24 expenditures will be reflected in the Annual Report. With the FY24 accounting books not closing until June 30, 2024, the estimated expenditures are tentative.

Table 5. Estimated Spend for FY24

| Carbon Fund Costs (\$000s) | FY24 Budget | FY24 Estimate | Underspend | Spend Rate |
|--------------------------------------|---------------|---------------|--------------|------------|
| Carbon Fund Admin | 4,401 | 4,066 | 334 | 92% |
| Carbon Fund Country Advisory Support | 1,954 | 1,828 | 126 | 94% |
| ERPA Costs - Supervision | 3,141 | 2,935 | 206 | 93% |
| Validation/Verification Costs | 2,067 | 1,373 | 695 | 66% |
| Registry Costs | 1,516 | 904 | 612 | 60% |
| Total Carbon Fund Costs | 13,079 | 11,106 | 1,972 | 85% |

7. Overspends and Underspends

The FY24 spend is projected to be 85% of the total FY24 allocated envelope once the final figures are available. The underspend of about \$1.9 million out of the total budget of \$13 million is mostly accounted for by the lower spend on Validation/verification costs and Registry Costs. Please see rationale below:

a. Carbon Fund Administration

Fund Administration costs are estimated to be around 92% of budget. This is explained by late date of CF28 that pushes some of those meeting expenses into FY25.

b. Carbon Fund Country Advisory Support

The budget for Country Advisory Support was about \$1.9 million. The FMT has provided the anticipated level of support as countries work to prepare monitoring reports and respond to verifiers. The estimated spend is expected to be 94% of the budget.

c. ERPA Costs – Supervision

Budget was planned for 15 programs that are in the supervision phase. The spend in ERPA Supervision is estimated to be around 93% of budget.

d. Validation and verification

Budget was planned for 14 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 66% of the budget.

e. Additional Activity on Registries

The CFPs approved \$1.5 million for work on Registries in FY24. The estimated spend is 60% 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. Phase 2 of the development of the registry has begun in FY24.

8. Sources and Uses as of March 31, 2024

The overall financial status of the fund is healthy. As shown in Table 6, the total committed funding amounts to \$874.5 million, with an additional \$62.5 million earned in investment income to date, bringing the total available funding to \$937 million. Estimated costs of the Fund over its lifetime are \$150.5 million. The average ER amount per ER Program is \$48 million based on the signed 15 ERPA's.

Table 6. State of the Fund – March 31, 2024

| Carbon Fund Sources and Uses Summary (\$m) | |
|--|-------------------|
| | Current Situation |
| Sources | 937.0 |
| Number of ER Programs | 15 |
| Uses | 871.8 |
| Signed ERPAs | 721.3 |
| Costs over Fund Lifetime (FY10 to FY29) | 150.5 |
| Fixed Costs | 47.5 |
| ER Program Costs | 93.0 |
| ER Program's Reversal Management Mechanism | 10.0 |

9. FY25 Budget Proposal

Table 7. FY25 Proposed Budget by Activity

| Carbon Fund Costs (\$000s) | FY24 Budget | FY24 Estimate | FY25 Proposed Budget |
|--------------------------------------|---------------|---------------|----------------------|
| Carbon Fund Admin | 4,401 | 4,066 | 3,500 |
| Carbon Fund Country Advisory Support | 1,954 | 1,828 | 1,875 |
| ERPA Costs - Supervision | 3,141 | 2,935 | 3,301 |
| Validation/Verification Costs | 2,067 | 1,373 | 2,000 |
| Registry Costs | 1,516 | 904 | 857 |
| Total Carbon Fund Costs | 13,079 | 11,106 | 11,533 |

The proposed overall budget for FY25 is about \$11.5 million. The FY25 proposed budget reflects the next important phase after ERPA signings and effectiveness which is to support countries in ER delivery, make results-based payments and implement benefit sharing arrangements. Additional budget is also requested for Country Excess ER Monetization Support and Non-Carbon Development Outcome Certification, which will be presented through FMT Note CFM/2024/2.

a. Carbon Fund Administration

As shown in Table 7, the Carbon Fund Administration budget is \$3.5m. 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 implementation of Benefit Sharing Plans, 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 the 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 FY25 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:

- Continuing to raise visibility of FCPF's work through strategic communications, including a focus on payments deliveries, marketing of excess ERs, and other achievements.
- Delivering a follow-up REDD+ Knowledge Day and other similar events to facilitate global learning and south-south knowledge exchange.
- Trainings on impactful benefit sharing, MRV, RBCF and links to carbon markets, and other priority areas.
- Contributing to new or existing analytical work and related learning to capture innovative models and lessons learned for future REDD+ programs.
- Website maintenance and other digital tools.

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 \$1.87 million.

c. ERPA Costs – Supervision of ER Programs

The supervision budget for FY25 includes budget for 15 programs that are in the supervision phase. This budget covers staff in task teams primarily from the World Bank's Environment, Natural Resources & Blue Economy Global Practice and the World Bank's Social Sustainability and Inclusion 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 FY25 about \$3.3m have been budgeted for this work.

d. Validation/Verification Costs

The FY25 Budget proposal includes about \$2 million for validation and verification costs for about 12 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 \$0.85 million is an estimate 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 upgrade and maintenance costs. Given that the Bank has secured its centralized budget to complement the use of FCPF and other carbon trust fund resources to cover the future CATS-related costs, the budget is estimated lower for FY25.

10. Decision for the CF28 Meeting

The Carbon Fund Participants are asked to approve the proposed Carbon Fund budget for FY25 of \$11.5 million.