

## Forest Carbon Partnership Facility (FCPF) Carbon Fund

### FY21 Budget Status and FY22 Proposed Budget for the FCPF Carbon Fund

June 2021

*This note is designed to (a) present the status of the FY21 budget and (b) present the proposed budget for FY22 of the Carbon Fund for approval by the Carbon Fund Participants.*

#### 1. The Budget Cycle

The timing for FCPF budgets – for both the Readiness Fund (RF) and Carbon Fund (CF) – are based on the World Bank fiscal year (July 1 - June 30), with FY22 starting July 1, 2021. Per the Charter, budgets are approved annually. The Carbon Fund budget is approved by the Carbon Fund Participants (CFPs). **The FY22 budget of the Carbon Fund is submitted and proposed for approval at CF23.**

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
- 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

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

- ‘Validation’ of ER program and systems in place for emissions reductions
- Support to REDD Country monitoring of ERs and preparation of monitoring reports
- Support to and costs of independent 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

## 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. With the extension of the Readiness Fund to December 2022, Shared Costs are estimated to be approximately \$13 million over the lifetime of the Readiness Fund. If this is the case, this will result in a charge to the Readiness Fund (in lieu of the Carbon Fund) of approximately \$350k (35% of the additional \$1 million).

## 3. Fund Contributions

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

**Table 1. FCPF Carbon Fund Contributions as of March 31, 2021**

| FCPF Carbon Fund   |                |             |               |                |               |               |               |               |               |               |                |               |               |              |               |
|--|----------------|-------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|--------------|---------------|
| Donor Contributions as of March 31, 2021 (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        |              |               |
| <b>Committed Funding</b>                                   | <b>874,492</b> | <b>0</b>    | <b>71,489</b> | <b>175,292</b> | <b>84,883</b> | <b>42,256</b> | <b>59,271</b> | <b>71,681</b> | <b>32,222</b> | <b>27,280</b> | <b>171,866</b> | <b>36,912</b> | <b>71,800</b> | <b>4,181</b> | <b>25,356</b> |

#### 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 FY22 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 at March 31, 2021, would be as follows:

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

| Participant Name                   | Total          | %age            |
|------------------------------------|----------------|-----------------|
| <b>Tranche A</b>                   |                |                 |
| 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%          |
| <b>Tranche A Committed Funding</b> | <b>46,892</b>  | <b>5.362%</b>   |
| <b>Tranche B</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%         |
| <b>Tranche B Committed Funding</b> | <b>827,599</b> | <b>94.638%</b>  |
| <b>Total Committed Funding</b>     | <b>874,492</b> | <b>100.000%</b> |

#### 5. Approved FY21 Budget

The Carbon Fund Participants (CFPs) approved the following operating budget of \$8 million for FY21 (CFM/Electronic/2020/1). 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 FY21 of \$1.6 million. The total Carbon Fund budget for FY21 was therefore about \$9.6 million as shown in Table 3 below.

**Table 3. FCPF Carbon Fund Overall FY21 Annual Budget (Operating Costs in US\$000)**

| Carbon Fund Costs (\$000s)                          | FY21 Budget  |
|---|--------------|
| Carbon Fund Admin                                   | 1,371        |
| ERPA Costs – Selection & Development of ER Programs |              |
| Carbon Fund Country Advisory Support                | 1,927        |
| Program Development - enhanced ER-PIN/PDs           | 1,117        |
| ERPA Costs - Supervision                            | 2,438        |
| Validation/Verification Costs                       | 461          |
| Registry Costs                                      | 714          |
| <b>Sub-total</b>                                    | <b>8,027</b> |
| Shared Costs  | 1,590        |
| <b>Total Carbon Fund Costs</b>                      | <b>9,617</b> |

## 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 at March 31, 2021)**

| Budget Line/Category of Costs (\$000s)           | Pre-FY09 | FY09 | FY10  | FY11  | FY12  | FY13  | FY14  | FY15  | FY16  | FY17  | FY18  | FY19  | FY20  | FY21 Estimate | FY22 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   | 1,091         | 1,350                | 12,000 |
| Carbon Fund Administration                       |          |      | 183   | 366   | 470   | 652   | 626   | 741   | 555   | 657   | 696   | 864   | 1,076 | 1,074         | 1,328                | 9,288  |
| Additional Activity on Private Sector Engagement |          |      |       |       |       |       |       |       |       |       | 162   | 371   | -     | -             | -                    | 533    |
| Registry Costs                                   |          |      |       |       |       |       |       |       |       |       |       | 100   | 758   | 222           | 1,333                | 2,413  |
| Validation/Verification Costs                    |          |      |       |       |       |       |       |       |       |       |       |       |       | 200           | 1,747                | 1,948  |
| <b>ERPA Costs - Selection</b>                    |          |      |       |       |       |       |       |       |       |       |       |       |       |               |                      |        |
| Carbon Fund TAP                                  |          |      |       |       |       |       |       | 23    | 440   | 514   | 463   | 533   | 41    | -             | -                    | 2,014  |
| <b>ERPA Costs - Development</b>                  |          |      |       |       |       |       |       |       |       |       |       |       |       |               |                      |        |
| Carbon Fund Country Advisory                     |          |      |       |       |       |       |       | 350   | 1,290 | 1,691 | 2,331 | 2,396 | 1,812 | 1,289         | 1,535                | 12,694 |
| ER-PD Development                                |          |      |       |       |       | 229   | 273   | 910   | 2,351 | 2,585 | 2,347 | 2,161 | 1,028 | 707           | 65                   | 12,656 |
| ERPA Costs - Supervision                         |          |      |       |       |       |       |       |       |       |       |       | 140   | 284   | 759           | 2,796                | 3,979  |
| <b>Total</b>                                     |          |      | 183   | 366   | 1,539 | 2,117 | 2,058 | 2,846 | 5,432 | 6,619 | 7,126 | 7,777 | 5,964 | 5,342         | 10,156               | 57,525 |

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 FY22 are \$57.5 million, of which \$12 million are for shared costs.

## 7. Forecast Spend for FY21

Final FY21 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY21 books not closing until June 30, 2021, the estimated expenditures are tentative.

**Table 5. Estimated Spend for FY21**

| Carbon Fund Costs (\$000s)                          | FY21 Budget  | FY21 Estimate | Underspend   | Spend Rate |
|---|--------------|---------------|--------------|------------|
| Carbon Fund Admin                                   | 1,371        | 1,074         | 297          | 78%        |
| ERPA Costs – Selection & Development of ER Programs |              |               |              |            |
| Carbon Fund Country Advisory Support                | 1,927        | 1,289         | 638          | 67%        |
| Program Development - enhanced ER-PIN/PDs           | 1,117        | 707           | 410          | 63%        |
| ERPA Costs - Supervision                            | 2,438        | 759           | 1,678        | 31%        |
| Validation/Verification Costs                       | 461          | 200           | 260          | 43%        |
| Registry Costs                                      | 714          | 222           | 492          | 31%        |
| Sub-total   | 8,027        | 4,251         | 3,776        | 53%        |
| Shared Costs  | 1,590        | 1,091         | 499          | 69%        |
| <b>Total Carbon Fund Costs</b>                      | <b>9,617</b> | <b>5,342</b>  | <b>4,275</b> | <b>56%</b> |

## 8. Overspends and Underspends

The FY21 spend is projected to be 56% of the total FY21 allocated envelope once the final figures are available. The underspend of about \$4.3 million out of the total budget of \$9.6 million is mostly accounted for by the low spend on ERPA cost supervision, Carbon Fund Country Advisory Support, and Registry Costs. Please see rationale below:

### a. Carbon Fund Administration

Fund Administration costs are estimated to be around 78% of budget. The main contributing factor is lower than expected spend on meeting expenses and travel due to COVID-19.

### 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 develop ER-PDs and/or sign ERPAs. The estimated spend is 67% of budget. The main contributing factor is lower than expected spend on travel due to COVID-19.

### c. ERPA Costs – Enhanced ER-PDs

The budget of \$1.1 million was an estimated spend during FY21 from the \$650k allocations made to programs that had entered the Carbon Fund pipeline and had signed a Letter of Intent (LoI). The budget was made up of the estimated unspent allocation to the countries that were invited to join the CF Pipeline in FY17 and 18.

Of the countries selected into Carbon Fund pipeline, only those that sign an LoI gain access to the \$650k allocations for ER-PD development. Of the 19 countries invited into the pipeline of the Carbon Fund, all 19 had signed LoIs, thus releasing the \$650k of ER-PD Development funds. Many of those countries have continued to spend on ER-PD development in FY21, with the exception of those countries that had already exhausted their allocation or previously signed ERPAs. Of the \$1.1 million budgeted for FY21, it is estimated that about \$0.7 million (or 63%) will be spent in FY21. It should be noted that costs were incurred on development of some programs before it was decided to not move ahead to ERPA signings.

**d. ERPA Costs – Supervision**

Budget was planned for ERPA Supervision costs to eliminate the need to come back to the CFPs for additional budget once ERPAs were signed. The costs of ERPA Supervision were lower than initially planned given that many of the programs signed ERPAs later in the year than planned and so less time has been spent in the supervision phase than estimated.

**e. Additional Activity on Registries**

The CFPs approved \$714k for work on Registries in FY21. The estimated spend is 31% of budget. Significant progress has been made on the development of Phase 1 of the Central Transaction Registry, Carbon Assets Tracking System (CATS) which is now operational. However, Phase 2 of the development of the registry, which was partially budgeted for in FY21, has not yet started.

**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 FY21 expenses are recorded. The current estimate projects expenditure to be within budget at \$1.1 million.

**9. Sources and Uses as of March 31, 2021**

The overall financial status of the fund is healthy. As shown in Table 6, of the total contributions of \$874.5 million, about \$788.1 million is available for the purchase of ERs. Estimated costs of the Fund over its lifetime are \$86.4 million, or about 10% of the total funds. The average ER amount per program is projected to be \$52.5 million, assuming 15 programs are developed.

**Table 6. State of the Fund – March 31, 2021**

| <b>Carbon Fund Sources and Uses Summary (\$m)</b> |                          |
|---|--------------------------|
|   | <b>Current Situation</b> |
| <b>Sources (\$m)</b>                              | <b>874.5</b>             |
| <b>Number of Lots (#)</b>                         | <b>18</b>                |
| Number of ER Programs expected (#)                | 15                       |
| <b>Uses</b>                                       |                          |
| <b>Costs over Fund Lifetime</b>                   |                          |
| Fixed Costs (FY10 to FY26)                        | 25.5                     |
| ER Program Costs                                  | 66.3                     |
| <b>Total Costs</b>                                | <b>91.8</b>              |
| <b>Available for Purchase of ERs</b>              | <b>782.7</b>             |
| <b>Average ER Program</b>                         | <b>52.2</b>              |

## 10. FY22 Budget Proposal

*Table 7. FY22 Proposed Budget by Activity*

| Carbon Fund Costs (\$000s)                          | FY21<br>Budget | FY21<br>Estimate | FY22<br>Proposed<br>Budget |
|---|----------------|------------------|----------------------------|
| Carbon Fund Admin                                   | 1,371          | 1,074            | 1,328                      |
| ERPA Costs – Selection & Development of ER Programs |                |                  |                            |
| Carbon Fund Country Advisory Support                | 1,927          | 1,289            | 1,535                      |
| Program Development - enhanced ER-PIN/PDs           | 1,117          | 707              | 65                         |
| ERPA Costs - Supervision                            | 2,438          | 759              | 2,796                      |
| Validation/Verification Costs                       | 461            | 200              | 1,747                      |
| Registry Costs                                      | 714            | 222              | 1,333                      |
| Sub-total   | 8,027          | 4,251            | 8,805                      |
| Shared Costs  | 1,590          | 1,091            | 1,350                      |
| <b>Total Carbon Fund Costs</b>                      | <b>9,617</b>   | <b>5,342</b>     | <b>10,156</b>              |

The proposed overall budget for FY22, excluding Shared Costs, is about \$8.8 million, indicating an increase of about \$778k from the FY21 budget of \$8 million. The increase is being mostly attributed to the higher supervision costs and validation and verification costs. The FY22 proposed budget reflects the next important goal after ERPA signings which is to make results-based payments.

### a. Carbon Fund Administration

As shown in Table 7, the Carbon Fund Administration budget of \$1.3m reflects a small increase when compared with the forecast expenditure for the FY21 of about \$1.1m. This reflects the higher number of staff needed to support the increasing work under the Carbon Fund. 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 support the ERPA negotiations process, monitoring, and verifying that ERPA Conditions of Effectiveness have been properly met.

**b. Country Advisory Support** comprises staff time and travel in providing support to countries developing and delivering their ER programs. This budget for the Country Advisory Support cost category in the amount of \$1.5 million is about \$200k higher than the FY21 estimate.

### c. Program Development - Enhanced ER-PINs/PDs

The funds allocated for Program Development - Enhanced ER-PINs/PDs are designed to support the remaining REDD Countries that are yet to sign ERPAs. The budget is based on the agreement that each country may avail itself of \$650k in support funds for the preparation and finalization of their ER-PD and proceeding to ERPA signature, after selection into the CF pipeline and signing an Lol. The Program Development budget line should be phased out when all ERPAs are signed. The budget for FY22 of \$65k is an approximate amount based on the possibility of minimal activities being completed in FY22.

### d. ERPA Costs – Supervision of ER Programs

The supervision budget for FY22 includes budget for 15 programs moving into 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 FY22, almost \$2.8m have been budgeted for this work, compared with \$2.4 million budgeted in FY21.

**e. Validation/Verification Costs**

The FY22 Budget proposal includes about \$1.7 million for validation and verification costs for about 10 countries. Third Party Monitoring costs are also budgeted under this category.

**f. Registry Costs**

Significant progress has been made on the development of the Central Transaction Registry, Carbon Assets Tracking System (CATS). This budget of \$1.3m 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.

- g.** The **FY22 Shared Costs** budget of \$1.35 million for the Carbon Fund will be submitted for approval by the PC as part of the approval of the FY22 budget for the Readiness Fund.

## **11. Decision for the CF23 Meeting**

The Carbon Fund Participants are asked to approve the proposed Carbon Fund budget for FY22 of \$8.8 million, and to note the CF portion of the Shared Costs of \$1.35 million.