Forest Carbon Partnership Facility

2b. Proposed Carbon Fund Budget for FY16

Twelfth Meeting of the Carbon Fund (CF12)

Paris, France, April 28-30, 2015

Outline of Today's Discussion

I. The Budget Process of the FCPF
   - Review of FCPF Budgeting
   - Expected Budget Lines of the Carbon Fund
   - Shared Costs
   - Apportioning Common Costs

II. Financial Status and FY15 Estimated Expenditure
   - Financial Status of the Carbon Fund
   - FY15 Estimated Expenditure

III. FY16 Budget Proposal
   - FY16 Budget Proposal including Shared Costs

IV. Decision for this Meeting

I. The Budget Process of the FCPF

Topics

- Review of FCPF Budgeting
- Expected Budget Lines of the Carbon Fund
- Shared Costs
- Apportioning Common Costs

I. Review of FCPF Budgeting

- Budgets for both the Readiness Fund (RF) and Carbon Fund (CF) based on World Bank fiscal year; FY16 = July 1, 2015 through June 30, 2016.
- Budgets approved annually; FY12 was the first year for budget approval by CF Participants.
- FY16 Budget of RF, including Shared Costs, to be proposed for approval at PC19 in May

I. Expected Budget Lines of the Carbon Fund

A. Carbon Fund Administration: ongoing Trustee role and part of the Common Costs shared pro rata by CF Tranches

B. ERPA Costs: can be attributed to specific ER Programs/ERPAs and charged back to CF Tranches based on their ER Program selection decisions

   i. Selection and Development of ER Programs

   ii. Supervision and Implementation Support

   iii. Carbon asset creation, monitoring, verification and issuance

C. Shared Costs: costs of activities cutting across both the CF and RF, shared between the two funds, forming part of the ‘Common Costs’ shared pro rata by CF Tranches

I. Expected Budget Lines of the Carbon Fund

A. Carbon Fund Administration

Functions related to FMT role as Carbon Fund Trustee, including:

- Fund strategy and management, fundraising
- Preparing budgets, business plans and longer term financial projections
- Legal guidance on Methodological Framework, General Conditions and Legal Agreements
- Accounting, contributions management
- Meeting costs
- Preparation of Annual Report and Semi-annual monitoring

I. Expected Budget Lines of the Carbon Fund

B.(i) 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 general terms 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

I. Expected Budget Lines of the Carbon Fund

B.(ii) ERPA Costs – Supervision and Implementation 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

I. Expected Budget Lines of the Carbon Fund

B.(iii) 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
- Making payments and maintaining accounts for ERs delivered to the Tranche(s) and Participants of the Carbon Fund

I. Expected Budget Lines of the Carbon Fund

C. Shared Costs

- Costs of activities that cut across both the CF and the RF
- Approved as part of approval of Readiness Fund budget by the PC
- Shared 65% by the Readiness Fund 35% by the Carbon Fund (per Charter)
- Shared Costs only borne by Carbon Fund from July 1, 2011
- Overall cap of $12 million that can be charged to the Carbon Fund for Shared Costs over the lifetime of the Fund (Approved by the PC through Resolution PC/8/2011/8)
- ‘Shared Costs’ have included in practice the activities paid out of:
    - FCPF Secretariat and
    - REDD Methodology Support

I. Shared Costs

The FCPF Secretariat

- Overall program management and activities related to maintaining partnerships among the many stakeholders of the FCPF
- Organization of Annual Meeting (PA) and PC meetings
- Travel and expenses of REDD Country Participants and some observers in meetings
- FCPF website and general communications, translation services

I. Shared Costs

REDD Methodology Support

- TAP review of R-PPs and R-Packages
- Early Carbon Fund non-country specific TAPs (e.g., Methodology and Pricing)
- TAP participation in FCPF meetings
- Close liaison with UN-REDD and international REDD+ programs
- Analysis on key REDD+ topics, lessons learned, and knowledge management (e.g., MRV, Reference Levels)
- Decision Support Tools for MRV, RLs & Data Management Systems
- Meth Guidance & Implementation of Carbon Fund Meth Framework

I. Apportioning 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
- They include all costs to date and all FY16 budgeted costs
- How should they be apportioned between the Tranches?
- 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)

I. Apportioning Common Costs

Tranche Commitments to date and current apportionments

Contributions to the FCPF Carbon Fund as of March 31, 2015		
	US$m	%age
Tranche A		
Australia	18.4	4.1%
BP	5.0	1.1%
The Nature Conservancy	5.0	1.1%
United States	14.0	3.1%
Committed Funding	42.4	
Committed Funding plus Pledges	42.4	9.4%
Total Committed	451.2	
Grand Total	451.2	100.0%

Contributions to the FCPF Carbon Fund as of March 31, 2015		
	US$m	%age
Tranche B		
Canada	5.0	1.1%
European Commission	6.7	1.5%
France	5.0	1.1%
Germany	125.5	27.8%
Norway	171.3	38.0%
Switzerland	10.8	2.4%
United Kingdom	84.5	18.7%
Committed Funding	408.8	90.6%

Amounts may vary due to exchange rate fluctuations

II. Financial Status and FY15 Estimated Expenditure

Topics

- Financial Status
- FY15 Estimated Expenditure

II. Financial Status – Available Funding

FCPF Carbon Fund
Donor Contributions as of Q3 of FY15 (in $ thousands)

Participant Name	Total	Outstanding*	FY15	FY14	FY13	FY12	FY11	FY10	FY09
Australia	18,393					5,658	12,735		
BP Technology Ventures	5,000						5,000		
Canada	5,015					5,015			
European Commission	6,709							362	6,347
France	5,000						5,000		
Germany	125,534	15,194	32,108	27,280	6,556	15,443	21,125	3,819	4,009
Norway	171,310				161,310				10,000
Switzerland	10,796					10,796			
The Nature Conservancy	5,000								5,000
United Kingdom	84,540	66,600					17,940		
United States of America	14,000				4,000		10,000		
Committed Funding	**451,297**	**81,794**	**32,108**	**27,280**	**171,866**	**36,912**	**71,800**	**4,181**	**25,356**

*Amounts may vary due to exchange rate fluctuations

Exchange Rates on March 31, 2015	$
Euro	1.070
GBP	1.48

II. Financial Status – Total Expenses to Date

								Estimate	
Budget Line/Category of Costs ($000s)	**Pre-FY09**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**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	776	4,240
Carbon Fund Administration			183	366	470	652	626	713	3,010
ERPA Costs						229	273	1,043	1,545
Total			183	366	1,539	2,117	2,058	2,532	8,795

- The World Bank paid **$2.35 million** for FCPF development costs (from early design meetings in 2006 through June 2008)
- RF has waived and paid **$3.6 million** to cover what would have been the 35% of Shared Costs for the CF for FY09 to FY11
- Actual expenses forecast to be charged against the Carbon Fund from FY10 to FY15 are **$8.8 million**, of which **$4.2 million** are for shared costs

II. FY15 Estimated Expenditure

- Final FY15 expenditures will be reflected in Annual Report prepared ahead of the Participants Assembly (PA)
- With FY15 books not closing until June 30, 2015, estimated expenditures are tentative
- Estimates show spending well below the overall FY15 budget at only 35% of the $7.2 million budgeted
- Total underspend will be around $4.6 million ($4.4 million excluding Shared Costs)
- Breakdown of underspend and explanations follows

II. FY15 Estimated Expenditure

Carbon Fund Costs ($000s)	FY15 Budget	FY15 Estimates	Underspend	Spend Rate
Carbon Fund Admin	665	713	(48)	107%
ERPA Costs – Selection & Development of ER Programs			-	
Carbon Fund TAP	120	7	113	6%
Carbon Fund Country Advisory Support	637	104	533	16%
Program Development - business dev	200	174	26	87%
Program Development - enhanced ER-PIN/PDs	4,500	757	3,743	17%
Sub-total	6,122	1,756	4,366	29%
Shared Costs	1,041	776	265	75%
Total Carbon Fund Costs	7,163	2,532	4,631	35%

- Slight overspend on Admin anticipated at 107% of budget
- Healthy Business Development spend of 87% for bringing ER-PINs on-line
- $3.7 million underspend for Development of Enhanced ER-PINs/PDs. $4.5 million budget was based on 5 countries in pipeline ($650k x 5) plus others expected to enter pipeline (to date $7.15m (11 x $650k) is approved)
- FY15 ER-PD spend is estimated at $757k (only 17% of budget) due to a lower than anticipated spend rate on ER-PD development activities

III. FY16 Budget Proposal

Topics

- FY16 Budget Proposal including Shared Costs
- Decision for this meeting

III. FY16 Budget Proposal

Carbon Fund Costs ($000s)	FY15 Budget	FY15 Estimates	FY16 Budget
Carbon Fund Admin	665	713	656
ERPA Costs – Selection & Development of ER Programs			
Carbon Fund TAP	120	7	591
Carbon Fund Country Advisory Support	637	104	1,220
Program Development - business dev	200	174	185
Program Development - enhanced ER-PIN/PDs	4,500	757	3,100
Sub-total	6,122	1,756	5,752
Shared Costs	1,041	776	800
Total Carbon Fund Costs	7,163	2,532	6,552

FY16 proposed budget reflects goal of assisting in the development of several ER-PDs by end 2016.

- FY16 Shared Costs are subject to approval by PC
- **Proposed budget for CF for FY16 of approximately $5.75 million to be approved by the CF Participants at this meeting**

III. FY16 Budget Proposal

- **Carbon Fund Admin:** Budget of $656k reflects a small decrease compared with the forecast expenditures for the current FY of $713k
- **Carbon Fund TAP:** Assuming between 4-6 ER-PD reviews by the TAP as well as a TAP Calibration Workshop.
- **Carbon Fund Country Advisory Support**: Targeted FMT support to countries in preparing their ER-PDs and move toward ERPA signature
- **Program Development – Business Development:** Requesting $185k business development budget to complete early development of ER-PINs across the portfolio (seed money)
- **Program Development – Enhanced ER-PINs/PDs:** Approximate budget of $3.1m based on 11 countries in pipeline (currently approved $7.15 million overall)
- No supervision and no asset creation, 'verification', etc. in FY16 [budget lines B.(ii) and B.(iii)]

IV. Decision for this Meeting

- Is approval provided for the proposed FY16 Carbon Fund budget of $5.75 million plus the CF portion of the Shared Costs as approved by the PC?