

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

FY14 Budget Status and FY15 Proposed Budget for the FCPF Carbon Fund

June 10, 2014

As requested at the Seventh Meeting of the FCPF Carbon Fund (CF7) held in Paris, France, June 24-25 and mentioned in the Co-Chairs' Summary this note is designed to (a) present the status of the FY14 budget and (b) present the proposed budget for FY15 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 FY15 starting July 1, 2014.

Per the Charter, budgets are approved annually. The FY14 Readiness Fund and Carbon Fund budgets were approved in June 2013. **The FY15 budget of the Carbon Fund is submitted and proposed for approval at CF10.**

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

- a. Primarily, the **Fund Administration** work consists of functions related to the World Bank role as Trustee of the Carbon Fund, including the preparation of budgets, business plans and financial projections. This includes development of long term sources and uses of funds as well as the construction of the FCPF Annual Report. Other key tasks such as accounting, resource management, contracting, and contributions management comprise fund administration. Finally, legal services and the initial development of Facility wide M&E framework are undertaken within the fund administration role. The cost and organization of the CF meetings, including REDD Country Participant and some Facility Management Team (FMT) travel, are also included in Fund Administration costs.
- b. The **ERPA Cost** category contains the bulk of the operating budget as it supports the selection and development of ER Programs.. Looking ahead, other ERPA costs will be work done on the supervision of the programs during implementation and implementation support. This cost category will also cover carbon asset creation, monitoring, verification, and issuance tasks.

2. Shared Costs

At 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 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 (Approved by the PC through Resolution PC/8/2011/8) was also established.

3. Fund Contributions

The current capitalization of the fund is \$466.5 million as shown below.

Table 1 FCPF Carbon Fund Contributions as of June 1, 2014

Contributions to the FCPF Carbon Fund as of June 1, 2014 (US\$m)								
	FY09	FY10	FY11	FY12	FY13	FY14	FY15-17	Totals*
Australia			12.7	5.7				18.4
BP Technology Ventures			5.0					5.0
Canada				5.0				5.0
CDC Climat			5.0					5.0
European Commission	6.3	0.4						6.7
Germany	4.0	3.8	21.1	15.4	6.6	27.5	56.9	135.3
Norway	10.0				161.3			171.3
Switzerland				10.8				10.8
The Nature Conservancy	5.0							5.0
United Kingdom			17.9					17.9
United States of America			10.0		4.0			14.0
Committed Funding	25.4	4.2	71.8	36.9	171.9	27.5	56.9	394.5
Pledged Funding (Conditional)								
United Kingdom							72.0	72.0
Committed Funding plus Pledges	25.4	4.2	71.8	36.9	171.9	27.5	128.9	466.5
* Amounts may vary due to exchange rate fluctuations								

4. Approved FY14 Budget

The FMT constructed a budget based on its forecasted work program, ERPA Costs, and support needs. After presenting the FY14 proposed budget at CF7, the Carbon Fund Participants (CFPs) approved the following operating budget (Resolution CFM/7/2013/1).

Table 2 FCPF Carbon Fund Overall FY14 Annual Budget (Operating Costs)

Carbon Fund Costs (\$000s)	FY14 Budget
Carbon Fund Admin	730
ERPA Costs – Selection & Development of ER Programs	
Program Development - business dev	300
Program Development - enhanced ER-PIN	1,220
Sub-total	2,250
Shared Costs	1,282
Total Carbon Fund Costs	3,532

5. Estimated Spend for FY14

Table 3 Estimated Spend for FY14

Carbon Fund Costs (\$000s)	FY14 Budget	FY14 Estimates	Underspend	Spend Rate
Carbon Fund Admin	730	588	142	81%
ERPA Costs – Selection & Development of ER Programs				
Program Development - business dev	300	208	92	69%
Program Development - enhanced ER-PIN	1,220	97	1,123	8%
Sub-total	2,250	893	1,357	40%
Shared Costs	1,282	1,186	96	93%
Total Carbon Fund Costs	3,532	2,079	1,453	59%

Final FY14 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA). With the FY14 books not yet closed, the estimated expenditures are tentative. The FY14 budget is estimated to show a 59% spend against the total allocated envelope once the final figures are available. This corresponds to an under spend of about \$1.5 million out of the total budget of \$3.5 million. The largest portion of the under spend (\$1.1 million) is for enhanced ER-PINs (see below for rationale).

6. Overspends and Underspends by Category

a. Carbon Fund Administration

Fund Administration costs are expected to be slightly under budget with an 81% spend. As the experience of the FMT grows the team finds ways to save on standard tasks. The main contributing factor here is the lower than anticipated meeting costs of CF meetings.

b. ERPA Costs –Business Development (‘Seed Money’)

The FMT had initially set aside \$200,000 to help countries develop their ER-PINs for presentation to the Carbon Fund. This initial budget was increased to \$300k at the April 2014 CF meeting. It is estimated that just over \$200k will be spent in FY14, used to assist the development of 8 ER-PINs presented to the CF during the year.

c. ERPA Costs – Enhanced ER-PINs/PDs

The budget of \$1.22 million is made up of the estimated unspent allocation to Costa Rica (estimated at \$620k at the time of budget preparation) plus \$200k for each of 3 countries to enhance their original ER-PINs, to be approved on a case-by-case basis by CF Participants (\$600k). Only \$97k of the allocation for Costa Rica has been spent during FY14, making a total spent since allocation of \$265k. Additional allocations beyond Costa Rica were only approved at the April 2014 CF meeting and none of the four countries have signed Letters of Intent (LoIs) to date so there is no expenditure against the \$600k general budget. Therefore, of the \$1.22 million set aside for FY14, it is estimated that only about \$100k will be used. As the next batch of countries granted entry into the CF pipeline - DRC, Ghana, Mexico, and Nepal - should all sign LoIs in the coming months, this should start the flow of support funds to further develop their Programs.

d. 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 are also estimates and may change when the final FY14 expenses are recorded. The current estimate is that expenditure will be approximately \$100k below the budget of \$1.3 million.

7. FY15 Budget Proposal

Table 4 FY15 Proposed Budget by Activity

Carbon Fund Costs (\$000s)	FY14 Budget	FY14 Estimates	FY15 Proposed Budget
Carbon Fund Admin	730	588	665
Carbon Fund TAP			120
Carbon Fund Country Advisory Support			637
ERPA Costs – Selection & Development of ER Programs			
Program Development - business dev	300	208	200
Program Development - enhanced ER-PIN/PDs	1,220	97	4,500
Sub-total	2,250	893	6,122
Shared Costs	1,282	1,186	1,041
Total Carbon Fund Costs	3,532	2,079	7,163

The proposed overall budget for FY15 is substantially larger than for FY14 with a heavy focus on development of ER-PINs and Program Documents (ER-PDs). The FY15 proposed budget reflects the goal of having several signed ERPAs by the end of 2015. With this in mind, new cost categories in the budget are the **Carbon Fund TAP** and the **Country Advisory Support** function.

As shown in Table 4, the **Carbon Fund Administration** budget of \$665k reflects a small increase compared with the forecast expenditures for the current FY of \$588k. This budget assumes three Carbon Fund meetings and small increases in fund management, legal and accounting costs, as the Fund gains momentum.

The work of the **Carbon Fund TAP** (Technical Advisory Panel) on the Methodological Framework, classified as REDD Methodology Support costs under the Readiness Fund, has formed part of the Shared Costs in previous years. However, future Carbon Fund TAPs will focus on reviews of Programs, likely at Program Document stage, and are therefore budgeted wholly under the Carbon Fund. The budget of \$120k is based on the FMT's experience of costs of TAPs for review of Readiness Preparation Proposals (R-PPs) in the Readiness Fund.

Country Advisory Support comprises the bulk of the FMT time under the Readiness Fund of the FCPF as it is the work closest to the REDD countries. As countries move along the continuum that is REDD Readiness and into the Carbon Fund, it is becoming increasingly clear that they will need targeted FMT support in preparing their ER-PDs. The addition of the Country Advisory Support cost category under the Carbon Fund is intended to enable the provision of this support. The budget has been estimated on the basis of providing necessary support to the development and preparation of ten ER-PDs.

As the largest share of the proposed FY15 budget (\$4.5 million), the funds allocated for **Program Development - Enhanced ER-PINs/PDs** are designed to support up to ten REDD Countries to get to an ERPA in 2015. Working from the agreement that each country may avail itself of \$650k in support funds for the preparation of their ER-PD once selected into the CF pipeline and the understanding that the target number of ER-PDs for the CF is approximately ten; the budget requires an overall total of \$6.5 million. The budget for FY15 of \$4.5 million is an approximate budget based on the current five countries in the pipeline plus others entering the pipeline in the next few months. It is important to remember that this budget is dependent on fixed allocations as countries are selected into the pipeline on a case-by-case basis by CF Participants, with the current overall budget for this cost category being \$3.25 million, equivalent to 5 country allocations of \$650k each.

8. Decision for the CF10 Meeting

The Carbon Fund Participants are asked to approve the proposed budget for FY15 of \$6.1 million plus the CF portion of the Shared Costs to be approved by the PC.