

## Forest Carbon Partnership Facility (FCPF)

### Readiness Fund

#### **Proposal for Allocation of Remaining Funds in the FCPF Readiness Fund**

September 24, 2018

*This note proposes an approach to allocating remaining funds in the FCPF Readiness Fund given its close in 2020.*

#### Background

The FCPF Readiness Fund is set to close on December 31, 2020, just over two years from now. It is currently estimated that approximately \$12.9 million will remain unallocated in the Readiness Fund – this is after taking account of current long-term budgeting projections for ongoing costs incurred by the Fund (i.e., Readiness Fund grant disbursements, country implementation support costs, shared costs, etc.).

As presented at the 25<sup>th</sup> Participants Committee (PC25), the Facility Management Team (FMT) has explored options for allocating the estimated remaining funding. Based on this analysis, the FMT proposes that the unallocated funding be reduced to between \$3.1 million and \$8.1 million through various fund management approaches. The FMT then proposes this funding be allocated to priority areas that support REDD+ Readiness, with an emphasis on FCPF Carbon Fund countries where appropriate.

#### Financial status of the Readiness Fund

At the time of PC25 the unallocated funds (reserve) was shown as approximately \$14.6 million (as at February 28, 2018). Updated financial scenarios as of August 30, 2018 now estimate that the unallocated funds are approximately \$12.9 million (see Sources and Uses below).

| Summary of Long Term Sources and Uses of Readiness Funding<br>(in \$ million, as of August 30, 2018) |              |              |
|------------------------------------------------------------------------------------------------------|--------------|--------------|
| Description                                                                                          | Totals (\$m) |              |
| <b>Sources of funds</b>                                                                              |              |              |
| Committed Funding                                                                                    | 399.3        |              |
| Less 15% discount*                                                                                   | (0.2)        |              |
| Investment income to date                                                                            | 32.9         |              |
| <b>Total Available Funding</b>                                                                       |              | <b>432.0</b> |
| <b>Uses of funds</b>                                                                                 |              |              |
| <b>Grant Allocations</b>                                                                             |              |              |
| <b>To REDD Countries</b>                                                                             |              |              |
| Signed grants to REDD Countries (commitments)                                                        | 282.0        |              |
| Allocations to REDD Countries (not yet signed)**                                                     | 32.9         |              |
| <b>Total Allocation to REDD Countries</b>                                                            |              | <b>314.9</b> |
| <b>To IP/CSOs</b>                                                                                    |              |              |
| Initial Allocation to IP/CSO Capacity Building Program (commitments)                                 | 3.0          |              |
| Additional Allocation to IP/CSO Capacity Building Program (March 2017)                               | 5.0          |              |
| <b>Total Allocation to IP/CSO Capacity Building Program</b>                                          |              | <b>8.0</b>   |
| <b>Total Grant Allocations</b>                                                                       |              | <b>322.9</b> |
| <b>Administrative, Operations, and Country Support costs over lifetime of fund</b>                   |              |              |
| FY09-18 Actual costs                                                                                 | 70.7         |              |
| FY19-21 Projected costs**                                                                            | 24.5         |              |
| Reserve for Delivery Partner capacity for dispute resolution                                         | 1.0          |              |
| <b>Total Administrative, Operations, and Country Support costs over lifetime of fund</b>             |              | <b>96.2</b>  |
| <b>Total Uses of Funds</b>                                                                           |              | <b>419.1</b> |
| <b>Unallocated Funds: Total Available Funding less Total Uses</b>                                    |              | <b>12.9</b>  |

\*Applied to outstanding contributions that are in a currency other than US dollars, the holding currency of the fund (World Bank policy)

\*\*Including Proposed Additional Activities (\$5 million) to be included in regular budgeting process

### Additional Information regarding the Sources and Uses table

#### Projected Costs

Projected costs for the remainder of the lifetime of the Readiness Fund (up to December 2020) include an additional \$5 million over and above the figures presented to PC25. These additional costs are all for activities that are typically included in the normal budgeting processes, such as knowledge exchanges, workshops, gender analyses, and lessons learned products. The FMT proposes that these fit well with the ongoing work of the Fund and would further strengthen REDD+ Readiness in-countries and position programs to better sustain activities established under Readiness. These additional costs will therefore be budgeted for through the regular budgeting process. That is, they will be included in the annual Readiness Fund budgets presented to the PC for approval. The \$5 million is made up of anticipated spends over the next two-plus years on Knowledge Management of approximately \$2.75 million (to help meet the Facility objective of broad dissemination of knowledge gained), Gender work of approximately \$1.6 million (to expand the current gender work and to share lessons more broadly), and translation of additional documents into French and Spanish (to aid broader knowledge dissemination) of approximately \$200k. If additional budget for these activities is required in the current fiscal year the

FMT will request additional budget either through a virtual no-objection to the PC through an “Action Without Meeting” or at PC27.

#### Investment Income

Amounts paid into both the FCPF Readiness Fund and the FCPF Carbon Fund, but not yet disbursed (the cash balances) are managed by the World Bank through a pooled investment portfolio (the Pool) to earn investment income. In accordance with all Participation Agreements with financial contributors, all investment income generated from both the Readiness and Carbon Funds is credited to the Readiness Fund. Investment income to the end of August 2018 amounts to \$32.9 million (as shown in above table) and it is anticipated that significant investment income would continue to accrue to the fund until December 2020. However, it is World Bank policy not to commit use of investment income until it is credited to the fund. Amounts are difficult to estimate (and could potentially be negative). To aid understanding of investment income as a source of additional income into the Readiness Fund, the investment income of the last two fiscal years has been \$7.2 million in FY17 and \$10.5 million in FY18.

As long as investment income continues to accrue to the Readiness Fund without any ability to predict the amounts or commit the monies prior to crediting to the fund, the unallocated balance of the fund is highly likely to increase significantly. The FMT therefore proposes amendments to Participation Agreements for both Readiness Fund Donors and Carbon Fund Participants to redirect the investment income accruing on both funds to the Carbon Fund. If the PC agrees with this proposal, these amendments should be made as soon as possible, ideally with a simultaneous date for the shift to the Carbon Fund. Participation Agreements for Carbon Fund Participants would need to be amended to redirect investment income in any case by the close of the Readiness Fund.

#### Shared Costs

Shared Costs are costs of activities that cut across and benefit both the Readiness and Carbon Funds. In practice, the Shared Costs have typically included FCPF Secretariat and REDD+ Methodology Support activities, such as the costs of PA and PC meetings (including the travel and expenses for REDD+ Countries to attend) and the work of the Technical Advisory Panels (TAPs).

Pursuant to the Charter, the Readiness Fund pays 65 percent and the Carbon Fund pays 35 percent of Shared Costs, **unless the PC decides otherwise** (Section 19.1(b)). The PC previously approved resolutions waiving cost sharing through to end of FY11 (to reflect the fact that the Carbon Fund was only fully operational as of May 2011) and paying 100 percent of the Shared Costs from the Readiness Fund. In addition, the PC agreed that cost sharing at the 65/35 level would commence from FY12 onward. Shared Costs charged to the Carbon Fund over the lifetime of the Facility (cumulative to the end of FY18) amount to \$7.4 million.

The forecast Shared Costs to be charged to the Carbon Fund from 1 July 2018 to 31 December 2020 (the remainder of the lifetime of the Readiness Fund) are \$2.4 million. If no Shared costs were charged to the Carbon Fund for this period, the Projected costs in the Readiness Fund for FY19-21 of \$24.5 million will increase by the \$2.4 million to \$26.9 million.

In order to reduce the unallocated funds from \$12.9 million, the FMT proposes that the transfer of Shared Costs to the Carbon Fund to date of \$7.4 million be reversed and that no Shared Costs are charged to the Carbon fund in future (in other words that no Shared Costs are incurred by the Carbon Fund).

If the PC agrees with the proposal that no Shared Costs should be charged to the Carbon Fund, the unallocated balance will be reduced from \$12.9 million by \$9.8 million (i.e. \$7.4 million previously charged and \$2.4 million anticipated from FY19-21), leaving the unallocated balance at \$3.1 million.

To support the proposal to not charge any Shared Costs to the Carbon Fund, it should be noted that investment income accruing on the Carbon Fund cash balance has been credited to the Readiness Fund in excess of the total Shared Costs. More specifically, total investment income to date from cash balances in both funds is \$32.9 million. The exact amounts that have accrued from the Readiness Fund and the Carbon Fund cash balances is not known. However, it is estimated that more than \$20 million has accrued from the Carbon Fund cash balances, well over the total Shared costs figure of \$9.8 million.

#### Grant allocation to Cameroon

The grant allocations to REDD Countries include the Additional Funding allocation to Cameroon of \$5 million. This Additional Funding allocation was approved in March 2017, with a deadline for signing the grant of March 2018. This deadline has since passed but the grant has yet to be signed so, **unless the PC decides otherwise**, the allocation should be made null and void. However, there are some signs of re-engagement from the country and the World Bank would like to give the country another chance to fully engage. The FMT therefore proposes that the deadline for signing this grant is extended to the current last deadline for signing grants – the deadline for Burkina Faso and Dominican Republic whose Additional Funding grant allocations were approved at PC25 – of March 28, 2019. It could be that the World Bank considers it would be difficult to spend the whole grant in the timeframe available and thus reduce the financing available or it could turn out that Cameroon does not re-engage sufficiently. In either case additional resources will become available to the Readiness Fund, of up to \$5 million.

These different financial scenarios are illustrated in the table below.

| FCPF Readiness Fund Unallocated Balance                                                | \$ millions |
|----------------------------------------------------------------------------------------|-------------|
| Unallocated Funds from Sources and Uses table*                                         | 12.9        |
| Additional resources available if Cameroon grant not signed                            | 5.0         |
| <b>Unallocated funds if Cameroon grant not signed</b>                                  | <b>17.9</b> |
| less Shared Costs not charged to Carbon Fund                                           | 9.8         |
| <b>Unallocated Funds if proposal for Shared Costs agreed</b>                           | <b>8.1</b>  |
| less Cameroon grant (if signed)                                                        | 5.0         |
| <b>Unallocated Funds if Cameroon grant signed and proposal for Shared Costs agreed</b> | <b>3.1</b>  |

\*assuming no further investment income accruing to Readiness Fund

### Amount of Unallocated Funds

Depending on the decisions of the PC and Carbon Fund Participants regarding the above proposals, the unallocated funds could be between approximately \$3.1 million and \$17.9 million (possibly plus investment income accruing in the future). However, assuming the PC agrees with the proposals on investment income and Shared Costs and they are fully implemented, **the unallocated funds are likely to be between \$3.1 million and \$8.1 million (depending on the grant to Cameroon).**

### Allocation of Unallocated Funds

It was agreed at PC25 that there would be no further calls for requests for additional funding through Recipient-executed grants. It was further agreed that, instead, the FMT would present options and recommendations on the use of remaining funds for World Bank and Delivery Partner-executed work to the PC, either virtually for no-objection or at PC26.

The FMT explored priority areas to allocate remaining funds and disburse them by December 2020.

### Criteria for allocating remaining funds

As noted above, the FMT explored “options to use the remaining [Readiness Fund] funds for additional World Bank and Delivery Partner- executed work with countries on specific needs—such as [Monitoring, Reporting and Verification] MRV, gender, private sector, [Civil Society Organization/Indigenous Peoples] CSO/IP capacity building, etc.”

The FMT reached out to World Bank and Delivery Partner colleagues working on program delivery and the above issues for proposals that:

- Are World Bank- or Delivery Partner-executed
- Are likely to be disbursed by December 2020
- Address gaps in FCPF countries on priority areas that support REDD+ Readiness, with an emphasis on FCPF Carbon Fund pipeline countries where appropriate.

### Proposed activities

The FMT reviewed over 40 proposed activities against the above criteria. The outcome of this analysis is the below priority areas for consideration by the PC. Please note, as mentioned above, that other proposed activities with an approximate total budget of \$5 million will likely be incorporated into the normal budgeting processes for FYs 19, 20, and 21, particularly for gender and knowledge management (e.g., potential knowledge products on lessons learned on REDD+ and Readiness ‘building blocks’, knowledge forums, knowledge exchanges, methodology workshops, gender gap analyses and gender action plans in more countries etc.).

### MRV

The FMT has identified that support for the operationalization and institutionalization of MRV systems is needed based on preliminary assessments conducted under the Global Forest Observations Initiative (GFOI). As part of the GFOI, donors and partners, including the World Bank, are launching Country Needs Assessments (CNAs) across all REDD+ Countries in order to evaluate their needs, enable them to rationalize the use of existing support (i.e. technical assistance or existing readiness grants), help donors

to identify areas where additional support is needed and eventually rationalize the donor support to avoid overlaps. However, short-term support is needed to launch these CNAs and support countries in addressing needs that cannot be addressed with existing funds.

The FMT is proposing to fund an initial set of CNAs (for up to 20 countries) to support countries in identifying the best use of existing readiness grants and other needs. It is expected that countries not included in this initial set would be covered by support from other donors through ongoing or planned MRV programs.

More specifically, the FMT is proposing a suite of activities that will comprehensively address the needs identified in the CNAs and that are not covered by existing readiness support or other technical assistance. The outputs of these CNAs will be fully integrated into the GFOI process so as to ensure sustainability of future support. These will cover:

1. Activity data improvements – for improvements in forest cover change, improvements to forest degradation and carbon stock enhancement assessment;
2. Improvements to Inventory and biomass estimation - for gaps in NFI data, improvements in emission factor estimates, biomass maps etc.
3. Data and systems – for data integration tools (e.g. FLINT), systems and protocols
4. Next generation of MRV – support for testing innovative methods

The modalities of delivering these improvements is through 6 cross-country and in-country activities.

Many of these interventions are cross-country interventions that will help many REDD+ countries (e.g. repository, regional trainings), but in-country interventions will be concentrated at this stage in front-runners that have already entered in the result-based payment phase (e.g. Carbon Fund countries). However, since the CNAs will be implemented as part of the GFOI and many interventions will be done in coordination with the GFOI or within the GFOI, it is expected that there will be additional support from other donors for other countries not covered by this proposal. The realization of a CNA by a country will provide critical information to attract donor and technical assistance support.

The FMT anticipates spending **up to a total of \$3 million** for these MRV activities to be rolled-out through December 2020.

### Country Forestry Notes

One of the World Bank Group's commitments under the 2016-2020 Climate Change Action Plan is to prepare Country Forestry Notes in at least 20 countries. Notes have been prepared in a few countries but many still need to be prepared. The FMT would like to utilize some of these unallocated funds to support the preparation of Country Forestry Notes targeted at those countries in the Carbon Fund pipeline where notes have not yet been prepared. These notes intend to focus on the country needs to deliver on their Emission Reduction programs, including financing gaps and policy gaps. Clear deliverables with regard to countries, content and quality will be agreed. The FMT anticipates spending **up to a total of \$3 million** on these notes up to December 2020.

### Private Sector

It is vital to the success of REDD+ to enhance the private sector's approach and engagement. The FMT plans to follow a private sector strategy which will target the unlocking of private sector contributions and maximizing Emission Reductions in the Carbon Fund pipeline jurisdictions. This strategy is more focused on widespread platform support, as opposed to individual private sector firm support and is aimed at leveraging existing initiatives and financing.

Long-term private sector investments are critical to address current funding gaps in climate finance for forests and landscapes. The Carbon Fund is finding innovative entry points to bring the private sector into the fold to help scale up the potential of REDD+. We intend to identify and leverage barriers to private sector engagement, we will generate or emphasize sustainable initiatives and support companies' commitments to implement their zero deforestation pledges. We will more specifically concentrate our efforts on sectors driving high deforestation such as cocoa, rubber, livestock and mines. We plan to focus on 4 private sector entry points: enforcement of sustainable platforms, development of training, the livestock sector and Forest Smart mining.

The FMT anticipates spending **up to a total of \$3 million** on private sector activities up to December 2020.

### IP/CSO Capacity Building

The FMT has identified opportunities to expand capacity building support to Indigenous Peoples and Civil Society Organizations (IPs/CSOs) on Readiness and emissions reductions (ER) programs. To complement the ongoing Capacity Building Program (CBP), the following activities will aim to strengthen knowledge sharing across regions on key issues:

1. Global meeting of the CBP implementing organizations/entities, including with FCPF observers, to identify lessons learned from the program and REDD+ Readiness
2. Regional dialogues on lessons learned and best practices from REDD+ Readiness, with emphasis on key thematic areas such as land tenure, benefit sharing, and gender inclusion
3. Country-level ERPA training workshops in six countries (potentially DRC, Mozambique, Vietnam, Indonesia, Costa Rica, and Mexico) to raise awareness on a range of topics, including basic ERPA terminology, the types of rights recognized in ERPAs, the implication of ER programs in the country context, and how IPs/CSOs can contribute to the effective and accountable implementation of ERPA activities.

The FMT anticipates spending **up to a total of \$950,000** for these activities to be rolled out through June 2020.

**All of these anticipated spends will depend on the decisions of the PC at this meeting and the outcome regarding the allocation to Cameroon. Provided the PC agrees with the overall suite of activities and the financial limits for each activity, the FMT will manage the unallocated funds within these parameters and report back to the PC as part of the regular updates.**

### Transferring funds from the Readiness Fund to the Carbon Fund

The FMT aims to avoid having significant funds remaining unspent in the Readiness Fund when it closes in December 2020. If funds remain unspent at the termination of the fund, the default according to the Participation Agreements is that the donor's pro-rata share of any unspent balance is returned to the donor. However, those donors who have contributed financially to both the Readiness Fund and the Carbon Fund would be able to transfer their pro-rata share of any unspent balance to the Carbon Fund if they wish. These donors represent approximately 80% of the financial contributions to the Readiness Fund.

For those donors who have not contributed financially to the Carbon Fund, the FMT has explored the options available for them to transfer their pro-rata share of any unspent balance to the Carbon Fund. If the proposals regarding investment income and Shared Costs are accepted, together with these proposed activities for the use of the remaining funds, it is likely that any unspent balance remaining in the Readiness Fund will be minimal. Those donors who are not contributors to the Carbon Fund make up approximately 20% of the funding in the Readiness Fund and thus their pro-rata share will only be 20% of the unspent balance.

The minimum contribution to enter into the Carbon Fund is \$5 million. It is likely that the aggregate unspent balance for all donors who are not contributors to the Carbon Fund will be less than \$5 million; thus, even the minimum contribution could not be met jointly, without additional contributions.

The minimum contribution could feasibly be reduced by unanimous agreement of all Carbon Fund Participants but it would be difficult to reduce the minimum contribution only for transfers from the Readiness Fund and not for other contributors. Under the Charter any contributors to the Carbon Fund have voting rights in the Carbon Fund. It is therefore unlikely that existing Carbon Fund Participants would agree to a reduced minimum contribution, unless there was also agreement on revocation of voting rights for contributions below the minimum threshold. This is an issue that could be explored with Carbon Fund Participants.

### Proposals for consideration of the PC

The FMT proposes the following for consideration of the PC:

1. *Projected costs for the remainder of the term of the Readiness Fund to include an additional \$5 million of expenditures to be approved through the normal budget approval process.*
2. *The deadline for signing the Cameroon grant is extended to the current last deadline for signing grants of March 28, 2019.*
3. *All investment income from cash balances in both the Readiness Fund and the Carbon Fund will be redirected to the Carbon Fund, beginning as soon as possible;*
4. *All Shared Costs over the lifetime of the Readiness Fund (estimated at \$9.8 million overall) will be borne by the Readiness Fund;*
5. *The FMT will pursue implementing the following activities, up to a total of almost \$10 million (depending on actual available funding, as forecasts are refined over time):*
  - a. *Up to \$3 million to support the operationalization and institutionalization of MRV systems based on CNAs;*



- b. Up to \$3 million to support the preparation of Country Forestry Notes for Carbon Fund pipeline countries;*
  - c. Up to \$3 million to support private sector activities*
  - d. Up to \$950,000 to expand capacity building support to IPs/CSOs on Readiness and ER programs.*
6. *As the Readiness Fund nears its close in 2020, the FMT can revisit possible options for donors who have not contributed to the Carbon Fund to transfer any unspent balances in the Readiness Fund to the Carbon Fund.*