

Forest Carbon Partnership Facility (FCPF)

Readiness Fund - possible extension beyond 2020

Proposal for Possible Extension of Readiness Fund beyond December 2020

October 2019

This FMT note assesses the implications of the different options available and proposes an extension of the Readiness Fund for two years to December 31, 2022. In addition, the note proposes an extension of the Capacity Building Program for Indigenous Peoples and Local Communities and an additional allocation of \$5 million to the program, to be committed only when funding becomes available.

Background

The FCPF Readiness Fund is set to close on December 31, 2020, just over one year from now. The question of a possible extension was raised by Participants at the Participants Assembly in October 2018 (PA11). The Co-Chairs' Summary from that meeting recorded the following: "Participants requested that a discussion on extending the term of the Readiness Fund beyond December 31, 2020 be tabled for the next PA meeting (PA12). The FMT will prepare an FMT Note on options for extending the Term of the Readiness Fund to be discussed at PA12."

Options

There are three basic options considered in this note, as follows:

Option 1: Readiness Fund closes as currently scheduled on December 31, 2020

Option 2: Readiness Fund is extended to 2022

Option 3: Readiness Fund is extended to 2025

Major Factors to Consider

- i) Disbursements - there is likely to be undisbursed funds for both Bank-Executed (BE) and Recipient-Executed (RE) activities (i.e., the Readiness Grants executed by REDD+ Countries) at the end of 2020. A section of this note, Financial Analysis, provides additional information.
- ii) REDD Country Participant needs for REDD+ Readiness, bearing in mind the potential for increasing REDD+ results-based payments and a potential future market for REDD+ Emission Reductions
- iii) The continuing need for support to Indigenous Peoples and local communities, as currently provided through the Capacity Building Program under the Readiness Fund
- iv) If there are undisbursed funds in the Readiness Fund at the time of closing, regardless of when that is, donors could decide to 1) have their pro-rata share of the remaining funds returned; 2) transfer their pro-rata share of the remaining funds under the Readiness Fund to the Carbon Fund, if the donors are also Carbon Fund Participants, or can meet the minimum contribution requirements of the Carbon Fund (\$5 million); or 3) transfer their pro-rata share of the remaining funds to a different World Bank trust fund.

- v) The latest Sources and Uses table below shows a reserve as at the end of June 2019 of \$18.7 million. This assumes closure of the fund in December 2020.

TABLE 1. SUMMARY OF LONG-TERM SOURCES AND USES OF READINESS FUNDING (\$, MILLIONS)

Summary of Long Term Sources and Uses of Readiness Funding (in \$ million, as of June 30, 2019)	
Description	Totals (\$m)
Sources of funds	
Committed Funding	399.1
Less 15% discount applied to outstanding contributions that are in a currency other than US dollars, the holding currency of the fund (World Bank policy)	0.0
Investment income to date	50.7
Total Available Funding	449.9
Uses of funds	
Grant Allocations	
To REDD Countries	
Signed grants to REDD Countries (commitments)	311
Allocations to REDD Countries (not yet signed)	3.1
Total Allocation to REDD Countries	314
To IP/CSOs	
Initial Allocation to IP/CSO Capacity Building Program (commitments)	3.0
Additional Allocation to IP/CSO Capacity Building Program (March 2017)	5.0
Total Allocation to IP/CSO Capacity Building Program	8.0
Total Grant Allocations	322.3
Administrative, Operations, and Country Support costs over lifetime of fund	
FY09-19 Actual costs	79.3
FY20-21 Projected costs	28.5
Reserve for Delivery Partner capacity for dispute resolution	1.0
Total Administrative, Operations, and Country Support costs over lifetime of fund	108.8
Total Uses of Funds	431.1
Estimated Reserve: Total Available Funding less Total Uses	18.7

- vi) Investment income continues to be earned on both Readiness Fund and Carbon Fund cash balances, all of which is credited to the Readiness Fund. Investment income in FY19¹ was almost \$20 million.
- vii) At least one donor, possibly more, wish to end their financial support to the Readiness Fund in December 2020, as originally envisaged.

Financial Analysis

Recipient Executed (RE) Grants

The FMT performed a financial analysis to understand the likelihood of undisbursed funds in the Readiness Fund by the end of 2020. As of the end of last fiscal year (June 30, 2019), undisbursed funds under RE

¹ All financial years (FYs) end June 30, i.e. FY19 ends June 30, 2019.

grants totaled approximately \$115 million (approximately \$90 million through the World Bank and approximately \$25 million through the other Delivery Partners (UNDP and IDB)).²

An analysis of the RE grants that have been fully disbursed indicate that the amount of disbursement in each year is similar over the term of the grants (in other words, that the rate of disbursement under an individual grant does not increase over time). Given this, the FMT developed two scenarios using different assumptions: 1) regardless of the disbursement trend to date, RE grants are fully disbursed by the end of the grant; and 2) RE grants are disbursed according to their current disbursement trend and may or may not be fully disbursed by the close of the Fund.

Based on this analysis, the FMT notes that RE grants are far more likely to be fully disbursed by December 2022. Furthermore, the FMT proposes that the RE grants should terminate no later than either December 2020 (current plans) or December 2022 as there is little value gained in extending beyond 2022. In either case, the Trustee will work with REDD+ Countries to do what is possible to disburse their RE grants in full by the close of the Readiness Fund.

	Assumption 1: All funds are disbursed by the end of the RE grant	Assumption 2: Funds are disbursed according to each RE grant's disbursement trend to date
Scenario 1: RE grants end in December 2020	<ul style="list-style-type: none"> In FY20, disbursements would need to total approximately \$77 million to remain on track for full disbursement by December 2020, which is unprecedented (RE disbursements for FY19 were approximately \$44 million) Approximately \$38 million would need to be disbursed in the final six months from July to December 2020 	<p>Assuming current disbursement trends for each individual RE grant:</p> <ul style="list-style-type: none"> In FY20, disbursements are estimated to total approximately \$45 million; and In the final six months from July to December 2020, disbursements are estimated to total \$20 million. <p>Under this assumption it is estimated that \$50 million in RE grant financing from 26 grants would remain undisbursed as of December 2020, according to current disbursement trends.</p>
Scenario 2: RE grants end in December 2022	<ul style="list-style-type: none"> Disbursements would need to be approximately \$33 million per year to remain on track for full disbursement by 	<p>Assuming current disbursement trends for each individual RE grant, it is estimated that \$11 million in RE grant financing from 9 grants would remain</p>

² All figures in this note are currently based on the most recent financial data as of the end of FY19 (at 30 June 2019). There are no significant changes in the overall financial position of the fund since that date.

	December 2022, which is less than actual disbursement trends seen to date	undisbursed as of December 2022.
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Bank Executed (BE) Funds

In addition to the standard budget for Operating Costs (which is agreed annually)³, \$13.3 million has been allocated from the Readiness Fund for additional BE activities as per the following table:

Bank-executed additional activities	Allocation
MRV	6,000
Private sector engagement	3,000
IP/CSO	1,305
Country Forest Notes	3,000
Total	13,305

Although the FMT is making every effort to disburse effectively and is very active in all these areas, it is unlikely that all of these funds will be disbursed by December 31, 2020. All activities in these areas should, however, be completed by December 31, 2022, at the latest.

Options for Closing the Readiness Fund

Option 1 Readiness Fund closes as currently scheduled on December 31, 2020

This option assumes that the Readiness Fund would close in December 2020, as currently scheduled, and all associated activities would conclude at this time. Under this option, RE grants would have the option to extend to December 2020 to allow maximum time for disbursements.⁴ There are likely to be challenges in fully disbursing both RE and BE allocations by December 2020, as indicated by the financial analysis above. Under this option, additional contributions are not envisioned to be accepted in the Readiness Fund.

Pros	Cons
<ul style="list-style-type: none"> No change to governance or legal documents Provides a clear end, and call for ambitious disbursements, for RE grants and BE funding allocations (could also be a 'con') 	<ul style="list-style-type: none"> 'Abrupt' and/or 'premature' end to activities associated with RE grants in-country, including for Carbon Fund countries High likelihood that planned BE activities will not be concluded, resulting in missed

³ This includes Readiness trust fund administration, FCPF Secretariat, REDD methodology support, country advisory services, country implementation support, and support costs for the indigenous peoples (IPs) and civil society organizations (CSOs) capacity building program

⁴ Any RE grant extensions are subject to World Bank Operational Policies and Procedures, which entails approval by management in both the Global Practice and the Country Management Unit.

	<p>opportunities, particularly related to Carbon Fund countries</p> <ul style="list-style-type: none"> • Countries will face enormous challenges in ensuring full disbursement under their respective Readiness Grants by December 2020, resulting in a high likelihood of undisbursed funds being returned to donors (although this could be reallocated; see below)
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Option 2: Readiness Fund is extended to 2022

Under this option, the closing date of the Readiness Fund would be extended to December 31, 2022. BE funding allocations could be completed by, and RE grants would have the option to extend to December 2022. Under this option, it is not envisioned that additional activities or Readiness Fund countries would be identified, other than an additional allocation to continue the Capacity Building Program (see below), but rather the extension of the Fund would allow for current commitments to be disbursed.⁵

It is important to note that under this option costs for administering and supporting the Readiness Fund, including implementation support to countries, will need to continue through December 2022, including for existing commitments. Additional standard budgets for Operating Costs (see footnote 3 above) for two years, currently estimated at approximately \$18 million (\$9 million per year) would need to be taken into account. This would use most of the reserve of \$18.7 million shown in the latest Sources and Uses table above.

Under this option, additional contributions are not envisioned to be accepted in the Readiness Fund.

Pros	Cons
<ul style="list-style-type: none"> • There would be more time to complete the planned activities under existing RE grants and BE activities, increasing the likelihood of their completion and full disbursement of funding available • Allows more time for countries, in particular Carbon Fund countries, to implement technical support and capacity building activities • Provides a clear end for RE grants and BE funding allocations, which countries can plan towards 	<ul style="list-style-type: none"> • A risk remains that some funding will not be disbursed and will need to be returned to donors but the size of any undisbursed amounts will be greatly reduced by 2022

⁵ This excludes circumstances such as grant(s) being cancelled and reallocated or appropriate adjustments to BE activities to ensure fit-for-purpose and feasibility of disbursement.

Option 3: Readiness Fund is extended to 2025

Under this option, the closing date of the Readiness Fund would be extended to December 31, 2025.

The FMT see minimal added value over and above any extension to December 2022 with regard to disbursement of the existing RE and BE commitments. Any additional needs for readiness funding and support to countries beyond the existing commitments under the Readiness Fund could be provided by other funds (see section below).

There would be additional costs to administer and support the Readiness Fund for the additional years. These are difficult to estimate without knowing the extent of activities under the fund, but assuming current annual costs of approximately \$9 million per year (which includes country implementation support), an extension to December 2025 would require approximately \$27 million over and above the funding required to extend to 2022 (approximately \$18 million). These additional costs would need to be allocated from any reserves or future investment income. If reserves or investment income were insufficient, additional contributions could be necessary. To date no donors have indicated their intention to provide additional contributions to the Readiness Fund.

This option is not supported by World Bank management.

Pros	Cons
<ul style="list-style-type: none"> A specialized fund available to provide REDD+ readiness preparation funding, with the specific aim of helping countries access result-based finance for REDD+ and/or a potential future market for REDD+ Emission Reductions, would remain. 	<ul style="list-style-type: none"> Additional costs of administering and supporting the fund Continued fragmentation of development and climate finance

Capacity Building Program for Indigenous Peoples and Local Communities

It is expected that the current allocations to the Capacity Building Program will be fully disbursed by June 2020. If it is agreed to extend the Readiness Fund to December 2022, then the FMT recommends that the Capacity Building Program also be extended to December 2022 and a further allocation of \$5 million is made to that Capacity Building Program. This additional allocation can be funded from the remaining \$0.8 million in the reserve, an expected underspend on Country Forest Notes of \$1.5 million and future anticipated investment income.

In addition, Germany has recently announced a contribution of €20 million to support indigenous people for forest protection. The FCPF plans to open a new multi-donor trust fund to support indigenous peoples and local communities, with this funding as the initial contribution, under one of its new Umbrella Trust funds. It is intended that this contribution, and any other future contributions to the fund, will ensure FCPF continues to provide support to indigenous peoples and local communities beyond the term of the Readiness Fund, at least initially up to the termination of the Carbon Fund, currently scheduled for December 2025.

Other Funding Sources for Readiness

If the Readiness Fund closes, whether it be in 2020, 2022 or 2025, readiness funding and support could then be provided by other funds. Readiness activities could be taken up by, for example, the new ProGreen trust fund set up recently by the World Bank, or other funds such as the Green Climate Fund (GCF) or the Central African Forest Initiative (CAFI). Another possibility that has been considered is a new Readiness Fund 2.0 in the World Bank, but this option is not supported by World Bank management.

The FMT foresees future potential for results-based payments and/or a potential future market for REDD+ Emission Reductions beyond the current group of 18 Carbon Fund countries. The FMT also recognizes that countries outside of that group of 18 are on a spectrum of readiness preparation from minimal to very advanced. Funding options for readiness are available through the Green Climate Fund and could be accommodated under ProGreen if there is sufficient demand and financial contributions. If there is sufficient demand and contributions, the FMT will work with Progreen to ensure the necessary readiness support.

These other funding mechanisms have the flexibility to support countries beyond the existing FCPF countries, potentially broadening access to results-based payments and/or a potential future market for REDD+ Emission Reductions. Some form of readiness assessment could also be designed, using the lessons learned from the FCPF Readiness Package Assessment Framework.

Legal Implications of the Options

Uncommitted Funds

If the fund closes with undisbursed funds:

- The Trustee will return the remaining balance to donors on a pro-rata basis, in accordance with the FCPF Charter. Specifically, Article 24 of the Charter provides that upon closing of the Readiness Fund, the Trustee shall *“return to the Donor Participants on a pro rata basis any remaining balance of the Contributions of the Donor Participants that is not committed by the Trustee [including] without limitation, under Grant Agreements and/or any other agreement . . . for purpose of the Readiness Fund.”*
- If donors that are also Carbon Fund Participants or can meet the minimum contribution requirements for the FCPF Carbon Fund (\$5 million) wish to transfer their pro-rata share of the remaining funds from the Readiness Fund to the Carbon Fund, Participation Agreements will either need to be amended or created, respectively.
- If donors wish to transfer their pro-rata share of the remaining funds from the Readiness Funds to another fund, this could be possible but would be subject to the legal requirements of that fund.

In addition, a donor may, at any time, withdraw from the FCPF, *“provided at least three (3) months prior written notice is given to the [FMT]”* (see Charter Section 7.4(a)), even if the Readiness Fund is extended. Upon such notice, the Donor Participation Agreement will be terminated, and the Trustee will return any uncommitted contributions to the donor on a pro-rata basis in accordance with the terms of the Donor Participation Agreement. It is important to note that only uncommitted contributions will be returned under this scenario.

Unanimous Consent

To extend the closing date of the Readiness Fund, according to the FCPF Charter Section 23.2(a), the Trustee requires unanimous consent of the REDD+ Country Participants and Donor Participants to amend the termination date in Section 22.1 of the Charter to the agreed date. Any decision will be documented in a resolution during the Participants Assembly meeting, specifying the amendments to the FCPF Charter.

Given that any extension of the Readiness Fund must be decided by unanimous consent, and some REDD+ Country Participants and Donor Participants will not be in attendance at the Participants Assembly, subsequent to the meeting the FMT will then provide a 30-day period of no objection on the resolution to all other REDD Country Participants and Donor Participants not in attendance at the PA meeting, in accordance with the amendment procedures in the Charter.

After this no objection by the REDD+ Country Participants and Donor Participants, the Trustee will then need to seek agreement from the Board of Executive Directors of the World Bank on the terms of such extension and to allow the Bank to continue to serve as Trustee of the Readiness Fund (see Charter, Section 23). In the event that the Board of Executive Directors of the World Bank rejects any proposed extension of the Readiness Fund, the amendment of the Fund's termination date in the Charter will be deemed null and void.

The FMT will then notify recipients of Readiness Grants that they may request to extend the closing date in their respective Readiness Grant Agreements to no later than the agreed closing date of the Readiness Fund. Any RE grant extension will be subject to World Bank Operational Policies and Procedures, which entails approval by management in both the Global Practice and the Country Management Unit.

FMT Proposal for consideration by the PA

The FMT proposes extension of the Readiness Fund to December 31, 2022 for consideration by the PA. This will allow the fund to fully, or almost fully, disburse both its RE and BE commitments, whilst not seeking additional contributions or considering any expansion of the fund beyond the current set of countries. This limited extension will enable continued and necessary support to both the 18 Carbon Fund countries and those not selected into the Carbon Fund. It will also allow other potential readiness funding sources, such as ProGreen for example, to make the necessary preparations to provide readiness funding and support. Many of the Donor Participants are supportive of this proposal.

The FMT also proposes an extension of the Capacity Building Program and an additional allocation of \$5 million to the program, to be committed only when funding becomes available.