



# Forest Carbon Partnership Facility

## Proposal for extension of Readiness Fund beyond December 2020

Simon Whitehouse

**28<sup>th</sup> Participants Committee Meeting (PC28)**

**and 12<sup>th</sup> Participants Assembly Meeting (PA12)**

Punta Cana, Dominican Republic, November 11-14, 2019

# Introduction

- 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).
- Co-Chairs summary: discussion on extending the term of the Readiness Fund beyond 31 December 2020 to be tabled for the next PA meeting (PA12). The FMT will prepare an FMT Note on options.
- Considered three basic options:
  - 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

- There is likely to be undisbursed funds for both Bank-Executed (BE) and Recipient-Executed (RE) activities at the end of 2020.
- REDD Country Participants need REDD+ Readiness support; There is a potential for increasing REDD+ results-based payments and a potential future market for REDD+ Emission Reductions.
- There is a continuing need for support to Indigenous Peoples and local communities which are currently provided through the Capacity Building Program under the Readiness Fund.
- The undisbursed funds will be 1) returned; 2) transferred to the Carbon Fund; or 3) transferred to a different WB trust fund
- Investment income continues to be earned on both Readiness Fund and Carbon Fund cash balance (almost \$20 million in FY19)
- At least one donor wishes to end its financial support to Readiness Fund in December, 2020.

# Where We Stand as of Today

The estimated reserve is **\$18.7 million** at the end of June 2019, assuming the fund closes in **December 2020**.

Description	Totals (\$m)
Committed funding	399.1
Investment income to date	50.7
Grant allocations to REDD countries	(314)
Grant allocations to IP/CSO	(8)
Administrative and operational costs over lifetime of the fund (FY09-FY21)	(108.8)
<b>Estimated Reserve</b>	<b>18.7</b>

However, as of end of June 2019, undisbursed funds under RE grants totaled \$115 million.

# Option 1: Closes by Dec. 2020 as Currently Scheduled

## Assumption 1

All funds are disbursed by the end of the RE grant

- In FY20, disbursements need to be **\$77 million**, which is unprecedented (FY19 disbursements \$44 million)
- **\$38 million** need to be disbursed in **six months** from July to December 2020

## Assumption 2

Funds are disbursed according to each RE grant's disbursement trend to date

- In FY20, disbursements are estimated \$45 million
- In the final six months from July to December 2020, disbursements are estimated \$20 million
- **\$50 million** in RE grant from **26 grants** would remain undisbursed as of December 2020

# Pros and Cons of Option 1 (closes by Dec. 2020)

## Pros

- 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')

## Cons

- '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 opportunities, particularly related to Carbon Fund countries
- 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

# Option 2: Extended to 2022

## Assumption 1

All funds are disbursed by the end of the RE grant

- Disbursements need to be \$33 million per year to remain on track for full disbursement by December 2022, which is less than actual disbursement trends seen to date.

## Assumption 2

Funds are disbursed according to each RE grant's disbursement trend to date

- It is estimated that **\$11 million** in RE grant financing from **9 grants** would remain undisbursed as of December 2022.

# Pros and Cons of Option 2 (Extended to 2022)

## Pros

- 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 access technical support and capacity building
- Provides a clear end for RE grants and BE funding allocations, which countries can plan towards

## Cons

- 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

- Additional standard budgets for Operating Costs for two years estimated at approximately \$18 million (\$9 million per year)
- This would use most of the reserve of \$18.7 million



# Option 3: Extended to 2025

## Pros

- 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.

## Cons

- Additional costs of administering and supporting the fund
  - Continued fragmentation of development and climate finance
- 
- Little value gained in extending beyond 2022
  - Additional needs for readiness funding and support could be provided by other funds (see later slide)

# Capacity Building Program for IP/CSO

- Current allocation will be fully disbursed by June 2020.
- If extending to 2020, FMT recommends to extend the capacity building program to 2022 and allocate additional \$5 million (remaining \$0.8 million in the reserve + \$1.5 million underspend on Country Forest Notes + future investment income).
- In addition, Germany will contribute €20 million to support indigenous people for forest protection.
- FCPF plans to open a new multi-donor trust fund to support indigenous people and local communities with Germany's contribution as the initial contribution. Under one of its new Umbrella Trust Funds.
- A new TF would ensure FCPF continues to provide support to indigenous people and local communities beyond the term of the Readiness Fund, at least up to the termination of the Carbon Fund by December 2025.
- Other options are under consideration

# Other Funding Sources for Readiness

- After Readiness Fund closes, readiness support can be provided by other funds, e.g. ProGreen, Green Climate Fund (GCF) or Central African Forest Initiative (CAFI)
- Beyond the current group of 18 Carbon Fund countries, there's a potential future market for results-based REDD+ Emission Reductions.
- 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.
- New forms of readiness assessment could be designed, taking the lessons learned from the FCPF Readiness Package Assessment Framework.

# 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 (Article 24).
- 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.

A donor may, at any time, withdraw from the FCPF even if the Readiness Fund is extended. The Trustee will return any **uncommitted** contributions to the donor on a pro-rata basis.

# 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.
- Given that some REDD+ Country Participants and Donor Participants will not be in attendance at the Participants Assembly, the FMT will then provide a 30-day period of no objection on the resolution.
- After this no objection, 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 (Charter, Section 23). In the event that the Board 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 to extend their 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 to make the necessary preparations to provide readiness funding and support. Many Donor Participants are supportive of this option.
- **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.