

Forest Carbon Partnership Facility (FCPF)

Readiness Fund

FY20 Proposed Budget for the FCPF Readiness Fund

March 2019

This note is designed to present the proposed budget for FY20 of the Readiness Fund for approval by the Participants Committee.

1. The Budget Cycle and Expenditure Categories

The timing for FCPF budgets, for both the Readiness Fund (RF) and Carbon Fund (CF), is based on the World Bank fiscal year (July 1-June 30), with FY20 starting July 1, 2019. Per the Charter, budgets are approved annually. The FY19 Readiness Fund and Carbon Fund budgets were approved in March and June 2018, respectively. **The FY20 budget of the Readiness Fund is submitted and proposed for approval in this meeting of the PC, PC27.**

The FCPF budget is built around five core activity types. Those are: Country Implementation Support; Country Advisory Services; REDD Methodology Support; the FCPF Secretariat; and Fund Administration. These activities fall into two groupings: Services to REDD Countries, and Secretariat and Trustee Function.

a. **Services to REDD Countries: Country Implementation Support, Country Advisory Services, and REDD Methodology Support**

The work of the implementing agency or delivery partner falls under **Country Implementation Support**. This covers the direct implementation support, including technical assistance, from Delivery Partners (World Bank, UNDP and IDB). This includes the key role of grant supervision and country level review, related to environmental and social due diligence, procurement and financial management policies and procedures of the Delivery Partners and the Common Approach to Environmental and Social Safeguards. With more countries having signed Readiness Preparation Grants and UNDP and the Inter-American Development Bank being active as Delivery Partners, this category of expenditures comprises a substantial portion of the total budget.

Also within Services to REDD Countries, **Country Advisory Services** consist of coordination of, and feedback on Mid Term Reviews and R-Packages. Some of the work of providing guidance on FCPF social and environmental due diligence (SESA guidelines, etc.) also falls under this category. Sharing cross-country experiences, developing and sharing guidance (e.g., social inclusion) with individual REDD Country Participants is another key component. Staff within the Facility Management Team (FMT) with responsibility for specific country programs (previously termed 'country focal points') were transferred from the FMT to the Environment Global Practice within the World Bank in April 2017. For consistency their time spent providing support to these country programs will continue to be charged to this expense category.

Finally, **REDD Methodology Support** rounds out the support to REDD Countries with activities such as the development of program cost assessment tools, other technical training and support tools such as the REDD+ Decision Support Tool, the implementation of the Methodological Framework, and Technical Advisory Panel (TAP) reviews of R-Packages. Other key responsibilities include the liaison

with UN-REDD and international REDD+ programs (FIP, GCF), as well as analysis on key REDD+ topics and lessons learned (e.g., MRV, Reference Levels, Registries, and Gender).

b. Secretariat and Trustee Function

The Secretariat and Trustee Function consists of two key areas: The **FCPF Secretariat** and the **Readiness Fund Administration**.

The overall program management and activities related to maintaining partnerships among the many stakeholders of the FCPF, the organization of the Annual Meeting and 2 PC meetings per year falls under **FCPF Secretariat** costs. Due to evolving needs of the fund, a larger knowledge management (KM) and sharing program is also housed within the Secretariat, closely coordinated by the KM and Communications team. In addition, FCPF Secretariat costs also cover travel and expenses of REDD Country Participants and Observers in meetings, website management, communications, knowledge management activities and translation services.

The **Readiness Fund Administration** work consists of functions related to the World Bank role as Trustee of the Readiness 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 preparation of the FCPF Annual Report. A stronger and more systematic portfolio management component is also included this category. The aim is to better identify and respond to barriers to country progress at the portfolio level. Other key tasks such as managing the operating budget throughout the fiscal year, contracting, reporting to partners and stakeholders and contributions management comprise fund administration. Finally, the tracking and reporting of the Facility-wide M&E framework is also undertaken within the fund administration role.

2. Shared Costs

At the set-up of the FCPF an arrangement 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 Readiness Fund is \$399.2 million as shown below.

Table 1: FCPF Readiness Fund Donor Contributions as of February 28, 2019 (US\$ thousands)

FCPF Readiness Fund Donor Contributions as of 28 February, 2019 (in \$ thousands)													
Participant Name	Total	Outstanding*	FY19	FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10	FY09
Australia	23,892									6,330	7,997		9,565
Canada	41,360										41,360		
Denmark	5,800											5,800	
European Commission	5,192	1,140						1,364		2,688			
Finland	23,196						3,230		5,261	5,749			8,956
France	10,340									5,136		592	4,612
Germany	106,382			29,616			23,784	13,913	13,113		25,956		
Italy	5,000										5,000		
Japan	14,000									4,000		5,000	5,000
Netherlands	20,270								7,635	7,635			5,000
Norway	113,696		12,281	30,119	2,370			38,727			8,801	16,398	5,000
Spain	7,048												7,048
Switzerland	8,214												8,214
United Kingdom	5,766										5,766		
United States of America	9,000								4,000			4,500	500
Committed Funding	399,157	1,140	12,281	59,735	2,370		27,014	54,004	30,009	31,538	94,880	32,290	53,895

*Amounts may vary due to exchange rate fluctuations.

4. Approved FY19 Budget

The FMT constructed a budget based on its forecasted work program and estimated country support needs. After reviewing the FY19 proposed budget, the PC approved the following operating budget.

Table 2: FCPF Readiness Fund Overall FY19 Annual Budget (Operating Costs)

Overall Budget (\$000s)	FY19 Budget
Readiness Trust Fund Administration	348
FCPF Secretariat	2,184
REDD Methodology Support	739
Country Advisory Services	1,434
Sub-total	4,706
Country Implementation Support	3,195
Sub-total	7,900
IP and CSO Program (Program Admin, Other (travel, etc))	300
Total Readiness Fund (including Carbon Fund Shared Costs)	8,200

Table 3: Share of the FY19 Budgeted Costs between Readiness Fund and the Carbon Fund

Overall Budget shared between funds (\$000s)	FY19 Budget
Readiness Fund	7,177
Carbon Fund	1,023
Total	8,200

5. Estimated Spend for FY19

In some previous years, when the PC has met nearer to the end of the financial year, this FMT Note on the budget has included an estimated spend for the current fiscal year. However, at the time of preparation of this note there was still about one-third of the fiscal year remaining and it is difficult to provide even tentative figures for expenditure forecasts this early in the year. The FMT closely monitors spending throughout the fiscal year and there is no reason to adjust the current budget for FY19. Final FY19 expenditures will be reflected in the Annual Report to be prepared by the time of the Participants Assembly (PA).

6. Long Term Sources and Uses

As shown in Table 5, the total committed funding amounts to \$399.2 million, with an additional \$41 million earned in investment income to date, bringing the total available funding to \$440 million. Of the total available funding, \$322.9 is allocated for Grants to REDD Countries and to the existing IP and CSO Capacity Building Program. \$108.4 million is allocated to cover Operations, Country Support and Administrative activities over the lifetime of the fund from inception in 2008 until closing in 2020/21. This leaves \$8.7 million in reserve. The proposed budget for FY20 is included in the FY19-21 Projected costs for Operations, Country Support and Administrative activities. Also included in the FY19-21 Projected costs are Additional Bank-Executed activities as approved at the PC26/PA11 Meeting in October 2018. These activities fall under four broad categories; namely: Monitoring, Reporting and Verification (MRV), Private Sector Engagement, support to IPs and CSOs and Country Forest Notes. The budget allocations for these additional activities across the three Fiscal Years FY19-21 are shown in the table below. Please note that the budget allocation for support to IPs and CSOs has been increased from \$950k to \$1.3 million.

The Unallocated Funds of \$8.7m are mainly attributable to investment income earned on fund balances in both the Readiness and Carbon Funds, which is all credited to the Readiness Fund. A total of \$8.1m has been earned as investment income from October 2018 (PC26/PA11) to date. It is therefore expected that the unallocated fund balance will subsequently increase as more investment income is credited to the Readiness Fund.

Table 4: Bank-Executed Additional Activities budget allocation (US\$ thousands)

Bank Executed Additional Activities	FY19	FY20	FY21	Total
MRV	900	3,600	1,500	6,000
Private Sector Engagement	938	1,823	240	3,000
IP/CSO	450	855	-	1,305
Country Forest Notes	600	2,400	-	3,000
Total	2,888	8,678	1,740	13,305

Table 5: Summary of Long Term Sources and Uses of Readiness Funding

Summary of Long Term Sources and Uses of Readiness Funding (in \$ million, as of February 28, 2019)		
Description	Totals (\$m)	
Sources of funds		
Committed Funding	399.2	
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)	(0.2)	
Investment income to date	41.0	
Total Available Funding		440.0
Uses of funds		
Grant Allocations		
To REDD Countries		
Signed grants to REDD Countries (commitments)	299.4	
Allocations to REDD Countries (not yet signed)	15.5	
Total Allocation to REDD Countries		314.9
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		322.9
Administrative, Operations, and Country Support costs over lifetime of fund		
FY09-18 Actual costs	70.7	
FY19-21 Projected costs	36.7	
Reserve for Delivery Partner capacity for dispute resolution	1.0	
Total Administrative, Operations, and Country Support costs over lifetime of fund		108.4
Total Uses of Funds		431.2
Unallocated Funds: Total Available Funding less Total Uses		8.7

7. FY20 Budget Proposal

Table 6: FY20 Proposed Budget by Activity

Overall Budget (\$000s)	FY19 Budget	FY20 Proposal
Readiness Trust Fund Administration	348	563
FCPF Secretariat	2,184	2,798
REDD Methodology Support	739	1,570
Country Advisory Services	1,434	1,919
Sub-total	4,706	6,850
Country Implementation Support	3,195	4,112
Sub-total	7,900	10,963
IP and CSO Program (Program Admin, Other (travel, etc))	300	672
Total Readiness Fund (including Carbon Fund Shared Costs)	8,200	11,635

The overall budget request for FY20 of \$11.6 million is approximately \$3.4 million more than the equivalent in FY19 of \$8.2 million. This increase is mainly due to overall increased activities in accordance with the revised proposals as agreed by the PC at the PC26. This includes the additional funding for KM, gender and translation that form part of the \$5 million¹ of projected expenditures for the remainder of the term of the Readiness Fund, to be approved through the normal budget approval process. Further, part of the overall budget increase is attributable to additional grants signed by both the World Bank and other Implementing Partners (UNDP and IDB), hence higher supervision and administration costs. The continued focus on REDD country support is reflected in the budget with the bulk of the proposed budget (65%) for the areas that provide direct support to the REDD Countries - REDD Methodology Support, Country Advisory Services and Country Implementation Support.

As seen in Table 6, the **Readiness Trust Fund Administration** budget at \$563k is slightly higher than the FY19 budget. This increase is reasonable, given the increased activities which require a corresponding increase in human resources dedicated to stronger portfolio and financial management component to improve the ability to identify and to respond to barriers to country progress towards Readiness, with the aim of ensuring full disbursement of all grants by 31 December 2020, the closing date of the Readiness Fund.

The **Secretariat** function budget has increased by about \$600k mainly in response to an expanded scope of activities planned for Communication and Knowledge Management. Among other activities planned for FY20 are: i) budget for South-South Knowledge Exchanges (SSKE), including subregional SSKEs on ER Program development, on-demand study tours based on country needs, ii) a higher allocation has also been made for translation of general and Secretariat PC documents in order to cater to all Participants, and iii) hosting of PC Meetings.

REDD Methodology; the budget allocation to REDD Methodology has increased to \$1.57m from FY19, mainly because of an expanded scope of activities for Gender Inclusion in Forests and Landscapes (\$1.35m) following the approval provided at the PA11/PC26 Meeting.

¹ The \$5 million includes projected expenditures on Expanded Communication and Knowledge Management of (approximately \$2.75 million), Gender work (approximately \$1.6 million), and translation of additional documents into French and Spanish (approximately \$200k), including increased South-to-South Exchanges.

Country Advisory Services, which primarily covers the time spent by Methodology Specialists and ‘country focal points’ on country programs, shows the continued support provided to the 46 active REDD Countries. With a budget of \$1.92 million, this represents an increase of about \$0.5m from the FY19 budget, as a result of the increased scope of activities and number of grants signed.

Country Implementation Support, which involves the work of the Delivery Partners (World Bank, UNDP and IDB) in providing direct implementation support, including technical assistance to REDD Countries, is the sole component of the budget proposal. The budget for these activities for FY20 stands at \$4.1m, representing an increase of \$0.9m from FY19 as a number of additional Readiness Grants have been signed by other Implementing Partners (UNDP and IDB). The budgeted transfer to UNDP and IDB for FY20 is \$912k to cover a transfer to UNDP expected to be made for support to Peru to implement an additional funding grant signed in FY19, as well as additional amounts for Cambodia, PNG, Paraguay and Kenya. It is important to note that the budget for Country Implementation Support is solely made up of the previously agreed allocations per country for Delivery Partner support i.e., \$650k for initial preparation grants and \$300k for additional funding grants, with the exception of Cambodia and PNG, for which an additional \$200k was approved for each.

Finally, \$672k has been budgeted to cover program administration costs for the IP and CSO Capacity Building Program and to support bringing key IP/CSO stakeholders to relevant meetings.

8. Shared Costs of the Proposed FY20 Budget

Table 7 Proposed Shared Costs FY20

Overall Budget shared between funds (\$000s)	FY19 Budget	FY20 Proposal
Readiness Fund	7,177	10,106
Carbon Fund	1,023	1,529
Total	8,200	11,635

9. Decision at PC27

The Participants Committee is asked to approve the proposed budget for FY20 of \$11.6 million.