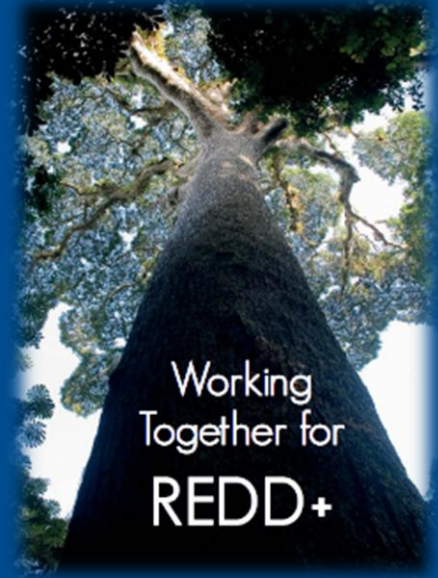


CIF CLIMATE INVESTMENT FUNDS

FOREST INVESTMENT PROGRAM

Operational Guidelines, Investment Criteria and Financing Modalities

1st FIP Pilot Country Meeting
November 7 and 8, 2010





- **Status of FIP**
- **Operational Guidelines, Investment Criteria and Financing Modalities**



FIP Design Document prepared through multi-stakeholder consultation process and approved by SCF Trust Fund Committee

Pledges To Date		
Donor	Contribution Type	Pledge in US\$eq. million
Australia	Grant	10
Denmark	Grant	10
Japan	Grant	67
Norway	Grant	146
UK	Capital	159
USA	Grant	168
TOTAL		558



FIP Countries
Brazil
Burkina Faso
Democratic Republic of Congo
Ghana
Indonesia
Lao PDR
Mexico
Peru



FIP SC composition up to March 2010 Partnership Forum

Country Members

- 6 developing countries: Brazil, DR Congo, Indonesia, Morocco, Nepal, Romania
- 6 contributor countries: Australia, Denmark, Norway, UK, US, Japan

Observers

- Non-profit civil society: Greenpeace, Network for the Environment (Alternates: Tapumu Community – Ghana; Sandhan Foundation – India)
- 2 indigenous peoples, 2 private sector (+ 2 alternates each)

Others

- FCPF Secretariat, UN-REDD technical secretariat, GEF Secretariat, UNFCCC Secretariat, MDB Committee, Trustee and pilot countries under the FIP



The main purpose of the FIP is to **support developing countries' REDD-efforts, providing up-front bridge financing for readiness reforms and public and private investments identified through national REDD readiness strategy building efforts**, while taking into account opportunities to help them **adapt to the impacts of climate change** on forests and to contribute to **multiple benefits** such as biodiversity conservation, protection of the rights of indigenous peoples and local communities, poverty reduction and rural livelihoods enhancements.

The FIP will finance efforts to address the underlying causes of deforestation and forest degradation and to overcome barriers that have hindered past efforts to do so.



Programming Phase

MDB - Joint Mission

Preparation of Investment Strategy

Endorsement of IS by FIP-SC

Preparation of projects and programs

Approval of projects and programs by
FIP-SC

FIP Sub-Committee to discuss and approve:

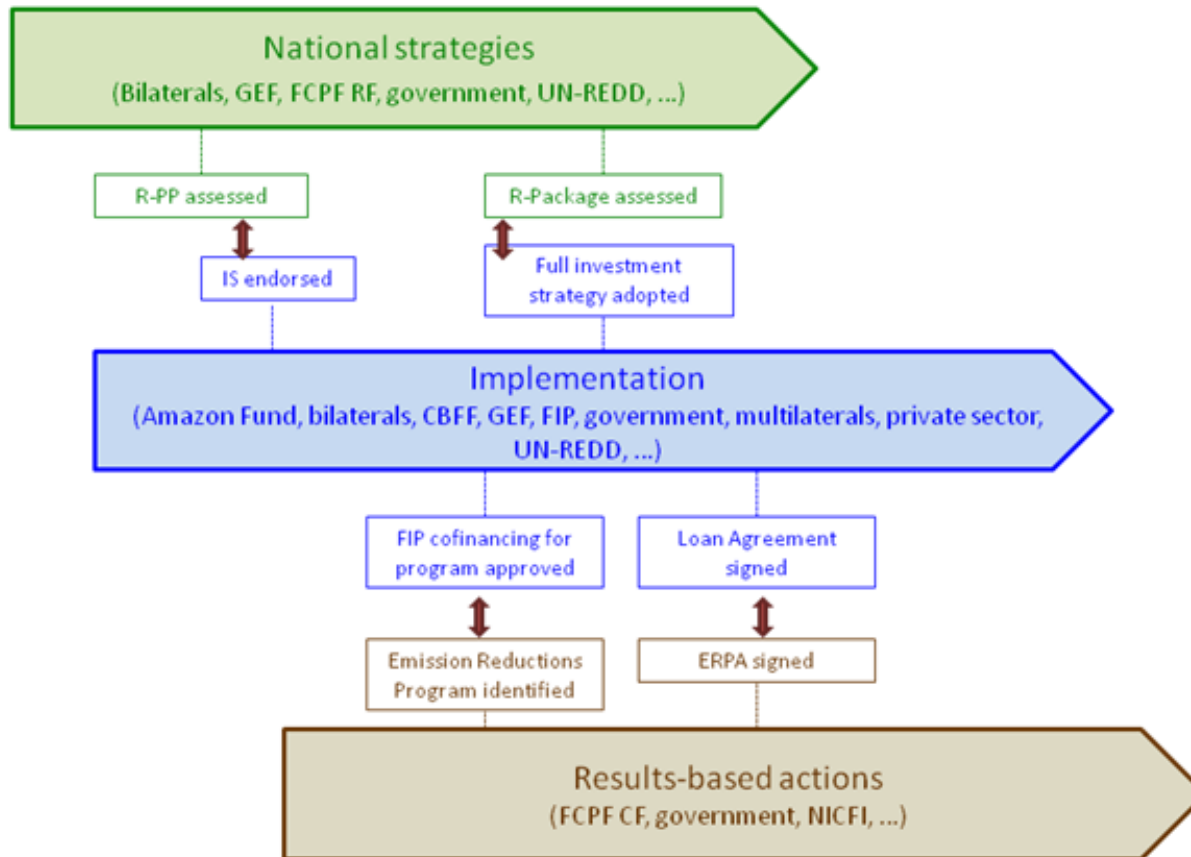
**FIP Operational Guidelines , incl.
Guidelines for Joint Missions**

**FIP Investment Criteria and Financing
Modalities**

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Collaboration with FCPF and UN-REDD







Purpose: to help pilot country prepare its FIP Investment Strategy (IS)

Country request

- ❑ Country prepares mission in collaboration with MDBs and other partners; FIP focal point sends request to CIF AU

Initial preparation

- ❑ Country consolidates array of in-country background documentation
- ❑ Country and MDBs prepare Joint Mission TOR: composition, budget, contacts, schedule

TOR approval and division of labor

- ❑ MDB Committee approves TOR/budget to be allocated from joint programming budget
- ❑ CIF Administrative Unit notifies FIP Sub-Committee and posts information on web

Undertaking Joint Mission

- ❑ Government leads, MDBs, other development partners (bi and multilateral), indigenous peoples, civil society, private sector participate
- ❑ Focus on diagnosis, stakeholder consultation, results orientation
- ❑ Report of missions prepared before mission end; mission report on web

If requested, FIP can provide a grant to the country of up to \$250,000 to cover up-front costs of Investment Strategy preparation




- ❑ IS reviewed and approved by government
- ❑ IS submitted by government to FIP SC through CIF AU
- ❑ FIP SC reviews IS taking into account country forestry and climate goals, and FIP investment criteria
- ❑ FIP SC endorses IS as a basis for moving forward to develop proposed projects ideas and approves funding requested for project preparation.
- ❑ FIP SC provides comments on draft Project Concept Note at time of endorsement of the investment strategy
- ❑ Program and project activities will be prepared and implemented in accordance with relevant MDB procedures



- Climate change mitigation potential
- Addressing drivers of deforestation and degradation
- Forest-related governance
- Country ownership, preparedness and ability to undertake REDD+
- Leveraging additional financing including private sector
- Integrating sustainable development
- Inclusiveness of process and participation of stakeholders
- Capacity building measures
- Coordinating with other REDD+ efforts
- Demonstration, learning and impact capacity
- Safeguarding the integrity of natural forests
- Measurable outcomes and results-based approach



IS endorsement by FIP SC  Project preparation phase begins

A preparation grant can be made available to enable country to prepare each project or program component, following MDB procedures

The grant amount will be included in the FIP funding available for the pilot to be approved by the FIP Subcommittee but will be made available up-front for country-driven preparation activities



FIP design calls for dedicated grant mechanism for indigenous peoples and local communities.

Eligible activities may include support for:

- strengthening the capacity of these groups to play an informed and active role in national REDD processes in general and FIP processes in particular
- recognizing and supporting their tenure rights, forest stewardship roles, and traditional forest management systems
- participation of these groups in the development of the FIP investment strategies, programs and projects
- implementation of projects as an integral component of country pilots

Terms of Reference for the design of the dedicated grant mechanism have been drafted by indigenous peoples and local communities approved by FIP Sub-Committee in March 2010



- ❑ IS monitoring must be participatory, transparent, verifiable
- ❑ FIP Results Framework applied
- ❑ Independent forest monitoring should be adapted to include REDD+ to enable independent assessment of forest governance dimensions
- ❑ Pilot country government should establish multi-stakeholder national - level steering committee to assist in planning, implementation and monitoring
- ❑ FIP SC reports to SCF Trust Fund Committee on results, outcomes and lessons learned
- ❑ Independent evaluation of FIP to be carried out after three years



- Section 1 Description of the country and sector context (including development, climate change and forestry strategies)
- Section 2 Identification of opportunities for GHG abatement
- Section 3 Enabling policy and regulatory environment
- Section 4 Expected Co-Benefits from FIP Investment
- Section 5 Collaboration among MDBs and with other Partners
- Section 6 Rationale for individual investments to be co-financed by FIP
- Section 7 Implementation potential with risk assessment
- Section 8 Financing plan and instruments
- Annex



FIP Finance Products include:

- Grants
- Concessional Loans and Equity
- Guarantees



✓ Up-front Financing for Country-based Activities to Prepare:

FIP Investment strategies in countries lacking an adequate basis for preparation. Such grants can be used to finance:

- Strengthening consensus among key national stakeholders and engaging development partners at the country level;
- Enhancing capacity of national institutions for robust policy reform and priority setting;
- Ensuring that FIP investments are based on sound analytical work linking forest sector investments to economic growth and poverty-alleviation strategies; and
- Assessing the poverty and social impacts of programs and projects.

FIP project and programs:

- development of quality investments



✓ Grants for FIP investments:

- Capacity development activities and activities related to policy, regulatory and institutional frameworks in the context of mitigating risks for future investments (especially in IDA countries) and readiness;
- Project components with very high additional costs that constitute a substantial portion of the total costs or with significant risks, and innovative financing instruments to soften commercial and/or MDB lending terms for forest projects or programs; and
- Grant mechanisms for indigenous peoples and local communities in FIP pilots.



✓ Concessional Loans

Concessional loans will be used to:

- Catalyze scaling up activities that initiate transformational change
- Fill identified investment gaps (amounts and structures) to address the underlying causes of deforestation and forest degradation
- Offset the additional costs associated with initiating transformational change in the forest sector and those affecting forests by deploying technology and mitigate risks;
- Support programs and projects that incentivize engagement with carbon markets.



MDBs may provide FIP concessional financing support to countries through:

- (a) lending to national governments;
- (b) lending to national governments for on-lending to sub-national entities;
- (c) lending to sub-national entities; or
- (d) lending to the private sector

CIF



Loan Terms

FIP Loans	Maturity	Grace Period	Principal Repayments Year 11-20	Principal Repayments Years 20-40	FY10-11 MDB Fee a/	FY10-11 Service Charge b/	Grant Element c/
	40	10	2%	4%	0.10%	0.25%	~75%



Private Sector Support

FIP offers concessional loans and equity products to support private sector projects and programs. The terms and structures of each financial product would be determined on a case by case basis to address the specific barriers identified in each case. The barriers include:

- High costs of early entrants
- Perceived Risk
- Combined risk and cost barriers