

# CLIMATE INVESTMENT FUNDS

FIP/SC.13/6  
November 5, 2014

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Meeting of the FIP Sub-Committee  
Washington, D.C.  
November 19, 2014

Agenda Item 6

## **FURTHER ELABORATION OF THE OPTIONS FOR THE USE OF POTENTIALLY NEW FUNDS UNDER THE FOREST INVESTMENT PROGRAM**

**(SUMMARY)**

## **PROPOSED DECISION**

The FIP reviewed document FIP/SC.13/6, *Further Elaboration of the Options for the Use of Potentially New Funds under the Forest Investment Program*, and notes with appreciation the work of the CIF Administrative Unit, the MDBs and the pilot countries to provide further details on the three options.

The FIP Sub-Committee acknowledges the importance of upfront investments in the phased approach to REDD+ and the role the FIP has played in providing such funds.

The FIP Sub-Committee agrees to implement

[*Option 1: Selection of new FIP pilot countries*]

And/or

[*Option 2: A dedicated set-aside of funds to address emerging issues related to REDD+ and/or address strategic needs identified in the FIP investment plans, including a second round incentivizing innovative private sector investments*]

And/or

[*Option 3: Additional resources to existing FIP pilot countries*]

should new FIP resources become available.

The FIP Sub-Committee takes note that a minimum amount of USD [100 million] in new FIP resources is necessary to implement each option.

## I. INTRODUCTION

1. At its last meeting on June 30, 2014, the FIP Sub-Committee reviewed document, FIP/SC.12/7, *Options for the Use of Potential New Funds under the FIP*, and agreed that in consultation with Sub-Committee members and pilot countries, options 1 (*Selection of new FIP pilot countries*), option 2 (*A dedicated set-aside of funds to address emerging issues related to REDD+ and/or close strategic gaps identified in the FIP portfolio, including a second round incentivizing innovative private sector investments*) and option 3 (*Additional resources to existing FIP pilot countries*) should be further elaborated. The Sub-Committee further noted that the discussion on the options should not prejudice a decision on the CIF sunset clause to be discussed in November 2014 in the joint meeting of the CTF and SCF Trust Fund Committees.

2. This paper responds to the request by the FIP Sub-Committee and presents for each option the criteria and the process that should be put in place for the implementation. The annexes provide additional detail relevant for each option.

### Option 1 - Selection of New FIP Pilot Countries

3. Considering the interest of additional eligible countries to participate in the FIP and the main findings of the studies exploring the *Linkages between REDD+ Readiness and the Forest Investment Program* and *Linkages between the Forest Investment Program and Performance-Based Payment Mechanisms*, option 1 proposes the expansion of the FIP by inviting new countries to participate. Specifically, it is suggested that a closer and more strategic link be established with the FCPF Readiness Fund and UN-REDD Programme by allowing countries which are supported by their readiness work to be eligible for accessing FIP upfront funding.

#### *Criteria*

4. With the confirmation of the role of the FIP in the phased approach to REDD+ and the need for substantial upfront technical assistance and investment resources, the following four criteria (1 quantitative and 3 qualitative) with weightings are proposed for selecting new FIP pilot countries:

- a) ***Potential to contribute to mitigation of climate change through REDD+*** (weight: 30%): The potential to contribute to forest-related climate change mitigation, including reducing the rate of deforestation and forest degradation, manage forest landscapes in a sustainable manner and enhance forest carbon stocks should be sufficiently high that the impact of FIP is significant. This will be measured using national forest database and inventory.
- b) ***Country readiness*** (weight: 30%): it is proposed that countries should be assessed on their progress in the REDD+ readiness process supported by the FCPF or UN-REDD Programme. Countries can show their status in the REDD+ readiness process by attaching to their expression of interest either a self-assessment using the FCPF Readiness Assessment Framework or a status update on the progress of the REDD+ readiness activities supported by either the FCPF or the UN-REDD

Programme. Information should be provided on how the readiness activities will lead to transformational changes in the forest sector and sectors affecting the integrity of forest ecosystems. This includes the potential to generate co-benefits such as enhancing the livelihoods of rural and forest-dependent people and the conservation of biodiversity and other environmental services.

- c) **Potential for private sector engagement** (20%): An enabling regulatory environment that promotes the development of the private sector or, new business models for private sector investments in REDD+ should be advanced. This could include policies and incentives that support private sector development and public-private partnerships, for supporting large-scale investments in agribusiness, production forests and recuperating degraded lands. Consideration of licensing, tariffs and taxes, and market access can indicate private sector potential and an enabling environment<sup>1</sup>. Quantitative assessments may use the “Ease of Doing Business” index. A high index means the regulatory environment is more conducive to the starting and operating a private local firm. The index uses the following additional variables that are relevant for assessing the private sector enabling environment in FIP countries: Enforcing contracts; Trading across borders; Resolving Insolvency; Getting Credit ; Registering Property; Starting a business
  
- d) **Potential capacity for implementation**, including sufficient institutional and technical capacity (weight: 20%). This could include a track record of forestry and forest-related projects that are completed or initiated with participation of government and other stakeholders, capacity for managing wider forest landscapes and land use interfaces at scale. Capacity of technical personnel in sector ministries and associated service providers. The existence of a multi-sectoral mechanism that can effectively address the needs for a low-carbon climate-resilient development path. The government’s ability to effectively and transparently manage, coordinate and absorb REDD+ funds, including performance-based payments and other relevant development finance.

## ***Procedures***

5. The CIF Administrative Unit will invite eligible countries to submit an expression of interest in participating in the FIP in accordance with the outline presented in Annex 3, (taking note of eligible countries which have already contacted the CIF Administrative Unit expressing a general interest in FIP funding). The CIF Administrative Unit will invite the members of the expert group constituted in 2010 to reconvene to review the expressions of interest received, score the proposals, and recommend to the Sub-Committee a prioritized list of countries that could benefit from the FIP. In presenting its recommendations to the FIP Sub-Committee, the expert group is requested to elaborate how it has taken the above criteria and other considerations into account and preparing its list of potential new pilot countries. The Sub-Committee will review the report of the expert group at its meeting in June 2015 and is expected

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<sup>1</sup> <https://www.forestcarbonpartnership.org/sites/fcp/files/2014/June/MBrady%20IFC%20REDD%20wrkshp%20Jun14%202.pdf>

to make a decision at that meeting. Pre-allocation of resources is subject to new pledges to the FIP and will be discussed after the selection of new FIP countries.

**Option 2 - A dedicated set-aside of funds to address emerging issues related to REDD+ and/or address strategic needs identified in the FIP investment plans, including a second round incentivizing innovative private sector investments**

6. This option builds on the experience with and lessons learned from a competitive allocation of resources under the FIP private sector set-aside. The assessment of the SCF private sector set-aside process and lessons is presented in information document FIP/SC.14/Inf.4. Annex 5 provides a summary of the findings and potential measures to further enhance the mechanism.

***Procedures***

7. Resources from the set-aside may be provided to either: private sector clients working through MDB private sector arms, OR public sector entities working through the MDB public or private sector arms which benefit public-private initiatives and through the removal of barriers, including the creation of an enabling environment for the private sector, initiatives of local communities and civil society to engage in REDD+ activities, provided that a minimum of [25][50]% of allocations under the current set-aside envelop are made to projects or programs for private sector clients working through the MDB private sector arms.

8. Under this option, it is proposed that resources be made available on a competitive basis for exploring emerging investment opportunities and needs related to REDD+ in the FIP pilot countries, including a second round incentivizing innovative private sector investments. Based on the lessons learned from the first round of the FIP private sector set-aside, the financial envelope for the theme-based FIP set-aside should provide for a mix of grants (for technical assistance, advisory services and investments) and concessional finance (loans, equity, and guarantees) consistent with the *FIP Financing Modalities*.

9. A competitive allocation of available FIP resources would be generated through a “call for proposals” taking into account the lessons learned from the first round of the FIP private sector set-aside. This would be established as follows:

- a) Subject to the availability of resources, the FIP Sub-Committee would agree on an annual envelope for the FIP set-aside; at least one fourth of the annual envelop will be available each quarter, and any unendorsed amount of funds will roll-over to the next quarter.
- b) A consultation process with interested FIP pilot countries to articulate country-specific themes which could be pursued through the “call for proposals” to address national priorities and enabling environment conditions (some examples are presented further below);

- c) Four dates within the year will be established by when concept notes may be submitted for consideration. Once each date has passed, received concepts would be reviewed virtually by an expert group. The expert group would interact with the MDBs and project proponents as described further below. The report of the expert group would be submitted to the FIP Sub-Committee for a decision by mail or during an inter-sessional meeting of the FIP Sub-Committee held virtually or, if requested, in-person;
- d) MDBs may submit project concepts and programmatic proposals;
- e) Concept notes identified by the expert group with potential for improvement may be revised and resubmitted either for the same or the next submission date of the “call for proposals”.

10. Countries which are interested in thematic national “call for proposals” may want to consider focusing on some the following potential themes:

- a) Developing sustainable supply chains of timber and non-timber products.
- b) Testing approaches to use wood as a substitute for fossil fuel intense products (aluminum, steel and concrete).
- c) The relationship between biodiversity and REDD+.
- d) The link between technology-based renewable energy and sustainable wood energy; and REDD+.
- e) Addressing mining and other extractives as a driver of deforestation.
- f) Enhancing information and communication technology in support of REDD
- g) Expansion of FIP investments to other forest ecosystems and biomes currently not addressed in the FIP investment plan.
- h) Exploring innovative mechanisms to pool various financing instruments for addressing REDD+ at the country-level.
- i) Management options for the forest concession allocated to the rural communities.

### **Criteria**

11. The expert group will review the concept proposals and make prioritized recommendations based on the extent to which the concept proposals meet the below criteria.

- a) ***Further advancement of the objectives of the endorsed investment plan*** (15%): The degree to which the proposed project meets the objectives and purpose of the FIP and further advances or complements the objectives of the endorsed FIP investment plan.
- b) ***Level of innovation relevant to the country proposed*** (15 % weighting): this may include innovation in terms of technology, business model, financial instruments or structure in a pilot country. The "level of innovation proposed" needs to be justified in the country- or sector-specific context of the proposal.

- c) **Readiness** (30% weighting): feasibility of MDB board approval within 9-18 months of FIP funding approval by the FIP Sub-Committee. An assessment of readiness may also include as to whether the national policy and regulatory framework is supportive of private sector or other innovative investments and the implementation risk.
- d) **Level of benefits to forest-dependent groups or sectors addressed through the future project or program** (20% weighting): how the project/program may benefit forest-dependent groups, and how gender considerations will be taken into account. If the concept addresses a specific economic sector, the transformational changes to the sector need to be described.
- e) **Sustainability of intended results** (20% weighting): the likelihood of the FIP-supported investment to produce results which can be sustained over time without additional concessional support or have a demonstrative character to be scaled up through markets.

### **Option 3 - Additional resources to existing FIP pilot countries**

12. Over the past years, the eight FIP pilot countries have frequently expressed the need for additional resources to address their REDD+ priorities and needs. Recognizing that the needs of all pilot countries far exceed the available FIP funding, this option proposes that if new FIP resources become available, these would be made available to the current set of FIP pilot countries.

13. In elaborating such an option, the CIF Administrative Unit solicited pilot country feedback on needs and key areas for potential use for new FIP funding. Overall, countries are supportive of the use of new FIP funding in the context of the good experiences they have made with the FIP programming and implementation process. There is agreement that the lessons learned from that process can be usefully applied in programming the new resources. The process would be much faster since structures are in place and the investment plan would remain the valid framework for programming and implementing new FIP investments.

14. Newly allocated FIP resources, including adding FIP funding to existing projects need to be processed in accordance with MDB policies and procedures, including a formal MDB approval and safeguards review.

#### ***Procedures***

15. Under this option new FIP resources would be made available to all pilot countries to augment their initial FIP allocations, depending on the available amount of additional resources. In order to access additional resources, countries would need to submit detailed information on how the use of the new money would further enhance the objective of the FIP investment plan and the national REDD+ agenda before submitting specific projects for approval. Additional resources could be allocated as follows:

- a) ***Pre-allocation:*** Under this allocation option, all FIP pilot countries would receive a set-amount based on the distribution key used to allocate the original FIP resources to the eight pilot countries<sup>2</sup>. Under this possibility, the pre-allocation would be as follows:
- i. Brazil and Indonesia would each receive an amount  $x$ ;
  - ii. Democratic Republic of Congo and Mexico would each receive 86% of the amount  $x$ ;
  - iii. Ghana and Peru would each receive 71% of the amount  $x$ ;
  - iv. Burkina Faso and Lao PDR would each receive 43% of the amount  $x$ .

Considering that an objective of the FIP is to provide funding for scaled-up investments that can initiate transformational change, and taking into account the transactions costs to program and implement the additional investments, a minimum additional allocation should be agreed on (e.g. USD 10 million).

- b) ***Combination of a minimum pre-allocation and competition for additional resources above the pre-allocated amount:*** Under this allocation option, all FIP pilot countries would receive a minimum allocation of USD  $x$  million of new FIP resources and would compete for additional resources above the minimum allocation. For this option, the FIP Sub-Committee would agree on a date by when the proposals need to be received to be eligible for the competitive part of the allocation. An expert group would be established to review the proposals and make a recommendation to the FIP Sub-Committee on which proposals should be funded from the competitive allocation. The assessment criteria discussed in option 2 of this paper could be used for the competitive part of this allocation option.

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<sup>2</sup> *Summary of the Co-Chairs.* FIP Sub-Committee Meeting, November 9, 2010.



## **Outline of Expression of Interest to Participate in FIP<sup>3</sup>**

### **I. COUNTRY AND GOVERNMENT AGENCY SUBMITTING EXPRESSION OF INTEREST**

#### **II. DESCRIPTION OF THE COUNTRY AND REDD+ CONTEXT**

Please provide a summary of the country and sector context relevant to REDD+, including potential to reduce emissions from deforestation and forestation and/or enhance forest carbon stocks, status of REDD+ readiness process, status of the REDD+ strategy or equivalent, targets, and implementation measures.

Note: This section will inform the discussion on criteria 1 (*Rate of Deforestation and Forest Degradation*) and 2 (*Country Readiness*) used as the basis for considering new FIP pilot countries.

#### **III. ENABLING POLICY AND REGULATORY ENVIRONMENT**

Please provide an overview of the existing policies, legal framework, and regulatory structure for reducing/avoiding deforestation and forest degradation, and manage forests and trees sustainably and the potential impacts of public and private sector interventions in addressing the barriers. Discuss the existing regulatory environment for attracting private investments in investments relevant to REDD+, including certification, pricing and tariff practices, competitive procurement of goods and services, the transparency and accountability of these practices and the degree to which they are subject to public oversight.

Note: This section will inform the discussion on criteria 2 (*Country Readiness*) and criteria 3 (*Potential for Private Sector Engagement*) used as the basis for considering new FIP pilot countries.

#### **IV. INSTITUTIONAL AND TECHNICAL CAPACITY FOR IMPLEMENTATION**

Please provide an analysis of the institutional and technical capacity for implementation, including the government's ability to effectively absorb additional funds. Please also provide a preliminary assessment of potential implementation risks.

Note: This section will inform the discussion criteria 4 (*Potential Capacity for Implementation*) used as the basis for considering new FIP pilot countries.

#### **V. PROGRAMS OF MDBS AND DEVELOPMENT PARTNERS**

Please describe briefly the ongoing and planned programs of the relevant multilateral development banks (MDBs) and other development partners relevant to REDD+ (including the FCPF and the UN-REDD Programme) and how the proposed interventions for FIP would link to and build upon these programs.

#### **VI. RATIONALE FOR SELECTED SECTORS FOR FIP FINANCING**

Please identify barriers for reducing/avoiding deforestation and forest degradation, potential sector, sub-sectors, and mechanisms for possible FIP financing as well as the rationale for prioritizing them for FIP interventions.

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<sup>3</sup> The expression of interest should not exceed 10 pages, excluding tables, charts, and annexes.

**Annexes:**

- Report on the progress with the implementation of the REDD+ readiness grant country has received from the FCPF or the UN-REDD Program.
- Other information as needed

**Common Format for Project/Program Concept Note for the Use of Resources from the Dedicated FIP Set-Aside**

FOREST INVESTMENT PROGRAM			
Dedicated FIP Set-Aside Concept Note			
1. Country/Region:		2. CIF Project ID#:	
3. Project/Program Title:			
4. Date of Endorsement of the Investment Plan:			
5. Funding Request (in million USD equivalent):	<i>Grant:</i>	<i>Non-Grant (loan, equity, guarantee, etc.):</i>	
6. Implementing MDB(s):		<input type="checkbox"/> Private sector arm <input type="checkbox"/> Public sector arm	
7. Executing Agency:			
8. MDB Focal Point and Project/Program Task Team Leader (TTL):	<i>Headquarters- Focal Point:</i>	<i>TTL:</i>	

- I. Project/Program Description:** Provide a summary description of the project, objectives, and expected outcomes. Also, provide information whether this will be a solely private sector project, a PPP, a public sector project financing private sector or a public sector project financing public sector entities.
- II. Context and market:** Provide brief explanation of country/sector context and/or an overview of the market (product nature, supply and demand status, prices, and competition as applicable. For public sector projects, provide information on barriers to be removed through the project. For private sector projects, in the absence of other comparable products, provide a brief explanation on how the proposed product will substitute for existing products and the benefits from a climate standpoint, and the prospects of commercial viability. If proposing a new business model, provide information of comparable to business as usual). Also, provide an overview of current **market barriers** and how will they be reversed by the proposed project.
- III. County Plan Alignment:** Provide an explanation how the project/program is aligned with the objective of the FIP investment plans or other national policy and programming framework relevant to addressing REDD+.
- IV. Project Innovation:**
- a. Innovation** - how the project is innovative in terms of approach, technology, business model, financial instruments or structure, market creation, and/or new

partnerships, and how the innovation will add value to the project. The level of innovation proposed needs to be justified in the country- or sector-specific context of the proposal.

- b. Approach, Technology, Product, and/or Business Model:** Provide description of the approach, technology, the technology provider if identified, whether it has been tested, commercialized and viable commercially. If the project does not involve a technology, provide a description of the business model and its structure.
- c. Sustainability of intended results:** provide information on the likelihood of a project to produce results which can be sustained over time without additional external financial support or have a demonstrative character to be scaled up through markets.

**V. Addressing vulnerability of people and sectors:** Provide information on how the project/program may benefit vulnerable rural and forest-dependent groups or economic sectors will be addressed to the extent possible, provide information on the population size and affected economic sectors, the degree of vulnerability of people and/or sectors, and estimated impact on vulnerable populations and sectors.

**VI. Financial Plan (Indicative):**

<b>Source of Funding (please indicate type of instrument, equity, debt, guarantee, grants, credit lines, etc. in each case)</b>	<b>Amount (USD million equivalent)</b>	<b>Percentage (%)</b>
Project developer/proponent		
MDB		
FIP		
Local banks		
Other investors		
Development partners		
Others		
<b>TOTAL</b>		100%

**VII. Expected Results and Indicators<sup>4</sup>**

<b>Expected Result(s)</b>	<b>Indicator(s)</b>
<i>Development Result(s):...</i>	

**VIII. Implementation Arrangements and Feasibility:** Provide information on the implementation feasibility of the proposed project and an estimated timeline for FIP funding and MDB approval (FIP Sub-Committee and MDB).

<sup>4</sup> These indicators will need to contribute or mapped to the five agreed FIP core indicator themes.

**IX. Potential Risks and Mitigation Measures:** What are the risks that might prevent the project development outcome(s) from being realized, including but not limited to, political, policy-related, social/stakeholder-related, macro-economic, or financial?