

CLIMATE INVESTMENT FUNDS

FIP/SC.8/5
April 12, 2012

Meeting of the FIP Sub-Committee
Washington, DC
May 4, 2012

Agenda Item 8

PROCEDURES FOR ALLOCATING FUNDS UNDER THE FIP RESERVE

Proposed Decision by the FIP Sub-Committee

The Sub-Committee reviewed document FIP/SC.8/5, *Procedures for Allocating Funds under the FIP Reserve*, and

- a) approves the proposed procedures and criteria for allocating resources from the FIP reserve that are available to finance additional projects in the FIP pilot countries;
- b) agrees to an indicative allocation of USD [80-150] million for the three rounds of competitive proposals;
- c) approves the “*Invitation to Submit Proposals for Direct Private Sector Engagement in REDD+ in FIP Pilot Countries*” (first round) and requests the CIF Administrative Unit to take the necessary steps to initiate the first round of competitive proposals as agreed in the procedures;
- d) allocates USD [25-50] million for the first round with the understanding that the majority of the resources would be available as concessional lending; and
- e) requests the CIF Administrative Unit to compile the proposed eligible proposals submitted by the FIP country focal points, in collaboration with the MDBs for review at its meeting in May 2013.

I. BACKGROUND

1. During its meeting in November 2011, the FIP Sub-Committee reviewed document FIP/SC.7/7, *Proposal for the Allocation of the Reserve under the FIP*, and agreed “that the allocation of funding from the reserve should be in three rounds in which project proposers would be invited to compete for FIP funding as follows:

- a) each round should allocate approximately one-third of the available funding;
- b) within six months of the endorsement of the eighth FIP Investment Plan, the Sub-Committee will consider a first round of proposals. This round of funding will be focused on programs and projects put forward in collaboration with the private sector;
- c) proposals will be submitted for consideration by the Sub-Committee as a second round at its meeting to be convened six months after the first round. This round of funding will be open to public and private sector proposals; and
- d) a third and final round of proposals will be considered by the Sub-Committee at its meeting one year after the first round. This round of funding will be open to public and private sector proposals.”

2. The Administrative Unit was requested to prepare, in consultation with the MDB Committee, for review by the Sub-Committee a proposal elaborating upon the procedures that will be put in place to implement this decision.

3. This paper proposes a procedure for inviting and processing proposals to receive funding from the FIP reserve. An information paper “*Ideas for Private Sector Investments in the Forest Investment Program*” (FIP/SC.8/Inf.2) presents ideas for private sector investments, targeted for the first round, submitted to the CIF Administrative Unit by the World Wildlife Fund (WWF) and the Environmental Defense Fund (EDF). These ideas illustrate the type of activity that might be supported through the first round.

4. The Sub-Committee agreed to consider a first round of proposals within six months of the endorsement of the eighth FIP investment plans. It is anticipated that all eight investment plans will be reviewed for endorsement by November 2012. In accordance with the earlier decision, the Sub-Committee may wish to consider a first round of proposals in May 2013.

II. CURRENT RESOURCES AVAILABILITY IN THE FIP RESERVE

5. The current pledge level to the Forest Investment Program is USD 611 million¹. USD 443 million has been contributed as grants and USD 168 million as capital contributions.

¹ As of December 31, 2011

6. The FIP Sub-Committee has agreed upon indicative allocations of USD 420 million to the eight pilot countries for FIP-funded activities and an allocation of USD 150 million to a “reserve” to be available to finance:

- a) additional projects in the FIP pilot countries over and above the resources available through the indicative allocation;
- b) the *Dedicated Grant Mechanism for Indigenous Peoples and Local Communities* (estimated USD 50 million);
- c) preparation grants for the development of the investment plans (USD 2 million); and
- d) support and supervision services² provided by the MDBs for projects and programs (estimated USD 20 million).

7. Taking into account the current FIP reserve of US\$ 150 million (USD 100 million in grant contributions and US\$50 million from capital contributions), and its expected distribution together with the FIP resources yet to be allocated, it is estimated that the reserve could be in range of USD 80-150 million (see table below).

| | Amount (USD) |
|--|---------------------|
| Pledged Resources¹ | |
| Pledges | |
| Grants | 438 |
| Capital | 201 |
| Total Resources (as of December 31, 2011) | 639 |
| Allocations | |
| Investment Plans | |
| Endorsed IPs | 180 |
| Expected IPs | 240 |
| Total IP Requests | 420 |
| Grants | 304 |
| Loans | 116 |

² SCF/TFC.7/6, *MDB Project Implementation Services under SCF's Targeted Programs – Sources of Funding and Implementation Arrangements* (approved in June 2011)

| | | |
|--|-----|------------|
| Approved FIP reserve | | 150 |
| Grants | 100 | |
| Loans | 50 | |
| Expected allocations from the reserve | | |
| IP preparation grants | | 2 |
| Dedicated Grant Mechanism (proposed grant funding) | | 50 |
| MDB project preparation/supervision (grants) | | 20 |
| Total of allocations from the reserve | | 72 |
| Remaining reserve | | 78 |
| Grants | 28 | |
| Loans | 50 | |
| Total Allocations (as of March 2, 2012) | | 570 |
| BALANCE | | 69 |
| Grants | 34 | |
| Loans | 35 | |

8. If each round allocates approximately one-third of the available funding, USD 25-50 million could be allocated to the first competitive round which will focus on collaboration with the private sector. For this first round, it is expected that the majority of these resources would be available to project recipients as concessional lending. Taking into consideration the available resources for each round, it is proposed that the Sub-Committee considers endorsing 2-3 proposals in each round for further development and funding.

III. PRINCIPLES AND CRITERIA FOR ACCESSING RESOURCES FROM THE FIP RESERVE

9. It is expected that the proposals put forth for consideration will fall under the same principles and procedures as proposals funded from a country's indicative allocation. The FIP Sub-Committee would therefore take into account in considering such proposals the FIP objectives, principles and investment criteria agreed in the following policy documents:

- a) FIP Design Document (July 2009)
- b) FIP Investment Criteria and Financing Modalities (June 2010)
- c) FIP Results Framework (May 2011)

10. In addition to the consistency of a proposal with the agreed guidelines referred above, the FIP Sub-Committee, in selecting proposals, should also take into account:

- a) diversity and innovation of the proposed project or program in light of the relevant investment plan and overall FIP portfolio so as to strengthen the FIP as an innovative and learning program;

- b) expected results from the proposed investment;
- c) contribution of the proposed project or program to the programmatic goals and objectives of the investment plan; and
- d) progress achieved in advancing other projects and programs under the endorsed investment plan in the pilot country.

11. Additional criteria specific to the competitive round for proposals may be identified in the *Invitation to Submit Proposals*.

IV. INVITATION TO SUBMIT PROPOSALS

12. It is proposed that for each round the Sub-Committee will review and approve an *Invitation to Submit Proposals* which will set out any additional criteria or preferences that are to be taken into account in allocating funding under that round. A proposal for such an invitation for the first round focused on collaboration with the private sector is attached as an annex. The Sub-Committee is invited to review and approve the draft invitation.

V. SELECTION AND APPROVAL OF PROPOSALS

13. Once an *Invitation for Submitting Proposals* has been approved by the FIP Sub-Committee, the CIF Administrative Unit will communicate the *Invitation for Submitting Proposals* to a wide audience including the FIP country focal points, members and observers to the FIP Sub-Committee, and the MDBs. The invitation will be announced on the CIF website, and the pilot countries and the MDBs will be requested to post the invitation on their websites.

14. It is proposed that a time period of three months be provided in which eligible project proponents³ may submit project concepts for consideration. Eligible proponents should submit their project concept notes directly to the appropriate government focal point and the relevant MDBs engaged with the government on the FIP investment plan.

15. Once the period for submitting proposals has closed, the country focal point and the MDBs should assess the submitted proposals taking into account the agreed criteria in the *Invitation for Submitting Proposals*. The government and the MDBs should consult to agree on which proposals to submit for consideration by the Sub-Committee and which MDB would be responsible for supervising the further elaboration and implementation of the project.

16. Once agreement has been reached at the country level as to which project concepts should be submitted to the Sub-Committee, the FIP country focal point should inform all proponents of the status of their proposal.

17. Six weeks prior to a FIP Sub-Committee meeting, the FIP country focal point (or the MDBs on behalf of the country focal point) should submit to the CIF Administrative Unit any

³ The eligibility of proponents depends on the scope of the competitive round and will therefore be defined in the *Invitation to Submit Proposals*.

project concept it wishes to be considered by the FIP Sub-Committee under the round. Together with the concept notes, preparatory grant resources may be requested and the implementing MDB may request 50% of the estimated budget for project preparation and supervision.

18. The CIF Administrative Unit will compile the concepts that it receives in a document for review by the Sub-Committee. At the Sub-Committee meeting, FIP pilot country focal points or a designated representative may make a presentation to the Sub-Committee outlining the proposals under consideration by the Sub-Committee. The Sub-Committee will be invited to review and select proposals for further development, together with an indicative allocation of resources and approval of funding for associated preparatory grant resources and implementing MDB project preparation and supervision services.

19. Further development of the concepts will be in accordance with the FIP procedures. At the time of its initial review, the FIP Sub-Committee may provide comments on a concept to be taken into account in the further development of the proposal. Project will be submitted to the Sub-Committee for approval of FIP funding at pre-appraisal stage. The approved projects will be included in the FIP pipeline management system and annual FIP portfolio review.

*Proposed Invitation to Submit Proposals for
Direct Private Sector Engagement in REDD+ in FIP Pilot Countries*

Background

The Climate Investment Funds (CIF) are designed to support low-carbon and climate-resilient development in developing countries through scaled-up financing channeled through five development banks (MDB): the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and World Bank Group.

One of three programs of the CIF's Strategic Climate Fund, the Forest Investment Program (FIP), provides scaled-up financing to developing countries for readiness reforms and public and private investments, identified through national REDD+ readiness or equivalent strategies, while taking into account opportunities to help adapt to the impacts of climate change on forest ecosystems and to contribute to multiple benefits such as biodiversity conservation, protection of right of indigenous peoples groups and local communities, poverty reduction and rural livelihood enhancements.

Eight pilot countries have been selected to receive funding through the FIP: Brazil, Burkina Faso, Democratic Republic of Congo, Ghana, Indonesia, Lao PDR, Mexico and Peru. Governments and other stakeholders have greatly advanced the programming process for utilizing FIP resources through the preparation of an investment plan in each pilot country.

The FIP Sub-Committee has established a reserve to finance additional projects in the FIP pilot countries over and above the resources available to each country through an indicative allocation.

Allocation of funding from the reserve is to be determined by the Sub-Committee through three rounds in which eligible project proposers are invited to submit proposals, through the country focal point, for review and consideration by the Sub-Committee.

This invitation to submit project concepts is being made to initiate the first round of funding allocations. This first round focuses on involving the private sector in REDD+ activities.

For more information on the FIP, please visit <http://www.climateinvestmentfunds.org/cif/node/5>

Objective of the Invitation

Reducing emissions from deforestation and forest degradation and enhancing forest carbon stocks in developing countries (REDD+) is an important development consideration in the eight FIP pilot countries. The amount of FIP resources provided to the eight pilot countries and other public funds is far from sufficient to meet the needs for effectively addressing the drivers of deforestation and forest degradation, and it is recognized that there is a need to engage the private sector if the benefits of REDD+ are to be sustainable. Proactively enabling and engaging

the private sector in REDD+ can contribute to significantly reduce or avoid GHG emissions from deforestation and forest degradation in the eight pilot countries.

What role the private sector can and should play in contributing to REDD+ is a recurring theme in all FIP countries. An analysis of the proposed projects and programs in the endorsed FIP investment plans shows that the majority of the planned investments will address REDD+ barriers through public sector activities and investments. The objective of this invitation is to identify direct private sector⁴ activities in the eight FIP pilot countries that merit FIP funding and that will contribute to initiating transformational changes in the forest sector and sectors affecting the integrity of forest ecosystems as presented in the endorsed investment plans.

Terms of Reference

Criteria

Proposals should be consistent with the objectives of the FIP country investment plan and should serve to promote or deepen the programmatic goals of the investment plan. Proposals will also need to be consistent with the FIP objectives, principles and investment criteria contained in the following policy documents:

- a. *FIP Design Document* (July 2009)
- b. *FIP Investment Criteria and Financing Modalities* (June 2010)
- c. *FIP Results Framework* (May 2011)

In addition to the consistency of a proposal with the agreed guidelines referred above, the following additional criteria should guide eligible proponents in this round. A proposed project should:

- d. address a niche/gap for enhancing the relationship between the private and the public sector in REDD+ in the pilot country;
- e. support direct private sector activities in REDD+ in the pilot country;
- f. add to portfolio diversity in light of the relevant country investment plan;
- g. be innovative, such as testing a new approach in the pilot country or bringing a good practice up to scale; and
- h. identify expected tangible results from the proposed projects and programs⁵ in the country-context;

Ideas may include, but are not limited to, innovative approaches and activities involving the private sector in REDD+ such as

- a) certification of sustainable supply chains for timber and non-timber products;
- b) certification of agricultural farms and products through the Commodity Round Tables or other certification systems relevant to REDD+;
- c) reclamation of highly degraded lands through private sector operations;

⁴ Operations with no sovereign guarantees.

⁵ Including baseline/reference scenario information and targets expected to be achieved with the investment.

- d) use of innovative financing instruments for REDD+ such as forest bonds and payment for environmental services;
- e) link REDD+ activities and sustainable energy supply activities; or
- f) creating viable partnerships between the private sector and indigenous peoples and local communities.

Proposals with a scope to foster private sector engagement beyond one FIP pilot country may also be considered. Proposals with a multi-pilot country focus must be clear and specific about the rationale for such approach and the executing arrangements at the country-level. Once the FIP Sub-Committee has agreed to the further development of a project concept, projects will be developed in accordance with the [FIP Operational Guidelines](#) (June 2010) and the procedures and policies of the MDB responsible for supervising the project preparation and implementation.

Proposal Review

Proposals will be reviewed and advanced in two stages:

- (a) the FIP country focal point and the private sector arms of the relevant MDBs⁶ will review all proposals submitted for consideration in that country. The country focal point and the MDBs will assess the submitted proposals taking into account the agreed criteria, including the feasibility to be implemented and will discuss which proposals to submit for consideration by the Sub-Committee. An MDB needs to be identified which would be responsible for supervising the further development and implementation of the proposal and support the proponent. The result of this process will be a short-list of proposals which will be submitted to the FIP Sub-Committee for further review.
- (b) The FIP Sub-Committee will review the proposals submitted to it through the pilot countries and will select which projects and programs will be allocated indicative funding from the FIP reserve. The Sub-Committee will invite the countries and proponents supported by the identified private sector arm of the MDB to further develop the selected project or program concept.

Once a proposed concept is selected and indicative funding allocated, the proposal will be developed further in accordance with the FIP Operational Guidelines. Approval of funding for the proposal is the responsibility of the Sub-Committee, and such decisions are made at a pre-appraisal stage in project development.

Eligible Proponents

Eligible proponents of projects include small and medium private sector entities, joint ventures and partnerships/associations which directly engage the private sector. In this round, awards will not be made to public entities, research institutions and the MDBs. Eligible proponents shall demonstrate that they will observe all proper MDB procedures for the project or program.

⁶ The Forest Investment Program is implemented through five development banks: the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and World Bank Group (including the International Finance Cooperation).

A proponent's support for its project or program must be financial and/or technical. If a project is to be a public/private partnership or association involving private and public sector entities, the proponent shall outline the terms of the partnership/association.

Submission and funding

Any eligible proponent wishing to propose a project or program concept for consideration should send an e-mail with (a) a proposal concept note (no more than 5 pages); and (b) information on the proposing entity, including experiences with executing projects at the country level to the country focal point and the MDBs. Contact details for country and MDB focal points are posted on the FIP website for each country as follows:

- a) Brazil: <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/brazils-fip-programming>
- b) Burkina Faso: <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/burkina-fasos-fip-programming>
- c) Democratic Republic of Congo: <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/democratic-republic-congos-fip-programming>
- d) Ghana: <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/ghanas-fip-programming>
- e) Indonesia: <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/indonesias-fip-programming>
- f) Lao PDR: <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/lao-pdrs-fip-programming>
- g) Mexico: <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/mexicos-fip-programming>
- h) Peru: <http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/perus-fip-programming>

Projects and programs will be implemented through the private sector arms of the relevant MDBs. An eligible proponent may execute the project if the proponent fulfills the relevant standards by the implementing MDB or, in case the standards are not met, jointly work with an agreed institution which meets the standards.

Proposal Format

The write up of the proposal should be short (no more than 5 pages) and should use the attached summary template. All proposals need to have information about the proponent, including the proposed executing arrangements. If the proponent is different from the potential executing entity of the project or program, information on this institution needs to be provided as well.

Contact

For more information about this invitation, please contact Ms. Andrea Kutter, phone: +1-202-473-4231 or e-mail: AKutter@worldbank.org or Ms. Joumana Asso, phone: +1-202-458-9635 or e-mail: JAsso@worldbank.org

Invitation for Proposals – Summary Template

| FOREST INVESTMENT PROGRAM | | | |
|---|---|----------------------------|--------------------------|
| Summary - Project Concept | | | |
| 1. Call for Proposals: | Direct Private Sector Engagement in REDD+ in FIP Pilot Countries | | |
| 2. Country: | | 3. CIF Project ID#: | (Trustee will assign ID) |
| 4. Endorsement date for Investment Plan: | | | |
| 5. Project Title: | | | |
| 6. Tentative FIP Funding Request (in USD million total) for project: | <i>Grant:</i> | <i>Loan:</i> | |
| 7. Anticipated co-financing (in USD million): | | | |
| 8. Preparation grant request (in USD): | | | |
| 9. Proposing entity: | | | |
| 10. Proposed implementing MDB: | | | |
| 11. Proposed executing entity for the project: | | | |
| 12. Proposed time frame: | Expected FIP Sub-Committee approval (month/year): | | |
| | Expected MDB approval (month/year): | | |
| | Expected project start and duration(month/year; years): | | |

13. Description of proposed project/program:

(a) Key challenges related to enhancing the role of the private sector in REDD+ implementation in the country

(b) Sector and theme of proposed project

(c) Short project description

Objective

Expected results

Implementation strategy/approach

(d) Role of the private sector in the project

(e) Proposed financing instrument and justification

14. How is the proposal promoting the FIP investment plan's programmatic goals and objectives?

15. Targeted beneficiaries:

16. Information about proposing entity:

17. Information in executing agency if different from project proponent:

18. Other information: