

CLIMATE INVESTMENT FUNDS

FIP/SC.7/7
October 21, 2011

Meeting of the FIP Sub- Committee
Washington, DC
October 31, 2011

Agenda Item 7

PROPOSAL FOR THE ALLOCATION OF THE RESERVE UNDER THE FIP

Proposed Decision by the FIP Sub-Committee

The Sub Committee reviewed document FIP/SC.7/7, *Proposal for the Allocation of the Reserve under the FIP*, and approves provisionally the criteria for allocating resources from the reserve that are available to finance additional projects in the FIP pilot countries. The Sub-Committee agrees to reconsider the criteria at its meeting in November 2012 in light of experience that will be gained in developing FIP investment plans and in implementing the early stages of projects and programs.

The Sub-Committee:

[agrees to allocate the FIP reserve proportionally to the pilot countries for a period of [12] months after the criteria for allocating the reserve resources are confirmed in November 2012. Public and private sector project proposals that would draw upon the allocated resources should be submitted to the Sub-Committee for approval during this time period. Once this period has passed, any unallocated resources will be available for financing project and programs in other pilot countries on a competitive basis.]

or

[agrees to consider for review and approval of FIP funding from the reserve resources public and private sector project proposals in [all] [a limited¹ number of] FIP pilot countries after the criteria for allocating the reserve resources are confirmed in November 2012. The Sub-Committee will establish a working group comprised of the following members to review and recommend which project proposals should be funded, taking into account the agreed criteria:

- a. [one][two] Sub-Committee members from recipient countries;
- b. [one][two] Sub-Committee members from contributor countries;
- c. two experts from the FCPF roster of experts;
- d. one Sub-Committee observer representative from civil society;
- e. one Sub-Committee observer representative from the private sector ; and
- f. one Sub-Committee observer representative from indigenous peoples groups.]

or

[agrees that the FIP reserve should be used as a private sector challenge fund. The Sub-Committee further agrees to consider for review and approval of FIP funding from the reserve resources private sector project proposals to be implemented in any of the FIP pilot countries after the criteria for allocating the reserve resources are confirmed in November 2012. The Sub-Committee will establish a working group comprised of the following members to review and recommend which project proposals should be funded, taking into account the agreed criteria:

- a. [one][two] Sub-Committee members from recipient countries;
- b. [one][two] Sub-Committee members from contributor countries;
- c. two experts from the FCPF roster of experts;
- d. one Sub-Committee observer representative from civil society;
- e. one Sub-Committee observer representative from the private sector ; and
- f. one Sub-Committee observer representative from indigenous peoples groups.]

¹ Based on performance and the quality of their REDD+ and FIP investment plans

I. INTRODUCTION

1. During its meeting in November 2010, the FIP Sub-Committee agreed on the principles and allocation of resources to FIP pilot countries, including the establishment of four levels of funding ranges for the eight pilot countries and the setting aside of a reserve. The Sub-Committee requested the CIF Administrative Unit, in consultation with the MDB Committee, to prepare for further consideration criteria for allocating the reserve amount.
2. During its meeting in June 2011, the FIP Sub-Committee agreed to postpone discussion on the criteria for the allocation of the FIP reserve due to time constraints. The FIP Sub-Committee was invited to submit written comments on document FIP/SC.6/7, *Proposal for the Allocation of the Grant Reserve under the FIP*, to the CIF Administrative Unit by July 31, 2011. The Sub-Committee requested the CIF Administrative Unit, in collaboration with the MDBs, to revise the document, taking into account such comments and to present a revised proposal to the FIP Sub-Committee at its November meeting. Comments were received from two Sub-Committee members.
3. At the same meeting, the FIP Sub-Committee reviewed document FIP/SC.6/CRP.6, *Distribution of Grant Resources and Other Concessional Financing to FIP Pilot Countries*, and agreed, among other things, that the reserve should be comprised of USD 100 million in grants and USD 50 million in other concessional financing.
4. Australia announced at the June meeting an additional contribution of AUD 25.5 million in grant resources to supplement the FIP reserve to support high performing projects and programs employing new and innovative approaches in the current FIP pilot countries.
5. This paper presents a revised proposal for the allocation of the FIP reserve for review and decision by the FIP Sub-Committee.

II. DEMAND FOR RESOURCES FROM THE GRANT RESERVE

6. The Sub-Committee has agreed that the following should be financed out of the FIP reserve:
 - (a) Additional projects in the FIP pilot countries that would require resources beyond the agreed funding range.
 - (b) Dedicated Grant Mechanism for indigenous peoples and local communities.
 - (c) Support and supervision services² provided by the MDBs for projects and programs.

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

7. It is expected that the FIP reserve will amount to USD 177.3 million and that it will be distributed as indicated below:

TOTAL RESERVE:	\$177.3million³	Source of funding
Dedicated Grant Mechanism for Indigenous Peoples and Local Communities	\$50million ⁴	Grant
Project/program preparation support and supervision services ⁵	\$18.9million	Grant
Access of FIP pilot country to additional resources	\$108.4 (US\$50 from capital contributions and US\$58.4 from grant contributions)	Grants and Capital contributions

III. CRITERIA FOR ALLOCATION OF ADDITIONAL RESOURCES TO PROGRAMS AND PROJECTS

8. It is proposed that the Sub-Committee consider three broad criteria to guide the allocation of resources under the reserve to FIP programs and projects:

- (a) demonstrated progress in implementing the FIP investment plan and readiness of the client to absorb resources;
- (b) diversity and innovation of the proposed FIP project or program in light of the FIP portfolio; and
- (c) link to high quality FIP investment plans and REDD+ readiness plans (or their equivalents).

9. The ranking and weighting of these three criteria will need to be determined by FIP Sub-Committee. The following paragraphs provide further elaboration on the criteria.

Demonstrated Progress and Readiness to Absorb Resources

10. In its November 2010 meeting, the Sub-Committee requested the CIF Administrative Unit to include in the *Semi-Annual Report on FIP Operations* information on progress in the development and implementation of investment plans, challenges identified and mitigation strategies put in place. Going forward, the semi-annual report on operations will include

³ As of September 30, 2011

⁴ Based on request from the indigenous peoples and local communities (document FIP/SC.7/8, *Dedicated Grant Mechanism for Local Communities and Indigenous Peoples*).

⁵ Project/program preparation support and supervision services for investment projects and programs are estimated at \$11.5million. Preparation support and supervision services for the Dedicated Grant Mechanism are estimated at \$7.4million

information from the pipeline management system for the SCF programs, a proposal for which is being presented to the SCF Trust Fund Committee for approval⁶ in November.

11. The semi-annual report on operations and the pipeline management system will include, for each projects and programs, information on:

- (a) date of Sub-Committee approval of project or program,
- (b) MDB approval date,
- (c) dates of effectiveness⁷ of a project or program; and
- (d) date of the first disbursement.

12. The semi-annual report on operations will be enriched over time by the annual monitoring reports which will provide qualitative information on implementation progress under each project and program foreseen in an investment plan as well as information on the core indicators of the FIP results framework.

13. Timely delivery of agreed pipeline targets and meeting agreed benchmarks towards achieving results in accordance with the FIP core indicators will provide evidence of a program's progress. Such information will be useful in assessing a client's readiness to undertake additional FIP activities.

Diversity and Innovation of the FIP Project and Program Portfolio and Quality of Plans

14. The FIPs purpose is to initiate transformational changes in the forest sector and other sectors driving deforestation and forest degradation through the provision of scaled-up investments that test innovative approaches and result in good practices that can be replicated in the pilot and other countries. The Sub-Committee may wish to consider ensuring a diversity of investments across the overall project/program FIP portfolio by giving priority to project concepts that would increase this diversity. Apart from assuring that a project concept meets the agreed FIP investment criteria, the FIP Sub-Committee might pay particular attention to the following considerations:

- (a) use of innovative financing modalities, such as performance-based incentive mechanisms;
- (b) encouragement of private sector investments;
- (c) additional resources expected to be leveraged by the investment; or
- (d) potential for scaling-up results through replication and generation of good practices.

15. Innovative proposals might emerge from REDD+ readiness plans or equivalents, including innovative investments in other sectors that address the drivers of deforestation and forest degradation. Innovation could include building partnerships with the private sector (e.g. through supporting a sustainable supply chain and/or certification) or support for integrated

⁶ SCF/TFC.8/4, *Pipeline Management of the Targeted Programs under the Strategic Climate Fund*

⁷ Signature of the loan or grant agreement between a country government and an MDB

approaches to forest landscape management involving indigenous peoples and local communities with a focus on maximizing multiple benefits at scale. Innovative financing mechanisms could include off-set mechanisms, performance-based incentive mechanisms such as payment for environmental services or mechanisms related to access to carbon funds

Quality of Plans and Expected Results

16. The Sub-Committee may wish to give special consideration to project ideas that build on high quality FIP investment plans and REDD+ readiness plans (or equivalents).

17. The FIP Sub-Committee may also consider requests for supplemental FIP resources for projects and programs if well justified in terms of the quality of the expected results.

IV. OPTIONS FOR THE ALLOCATION OF THE FIP RESERVE

18. In accordance with the decision by the FIP Sub-Committee, funding from the reserve will be allocated to projects and programs once the investment plans for all eight pilots have been endorsed.

19. The Sub-Committee might consider three options on how to manage the allocation process keeping in mind the goal of incentivizing fast moving FIP pilot countries and innovative proposals:

- (a) *Option 1:* Proportional distribution of reserve resources to pilot countries for a limited time period (such as 12months). Once the agreed time period for submission of proposals has passed, any unallocated resources would be available on a competitive basis for use in other pilot countries; or
- (b) *Option 2:* The reserve will be managed as one pool of resources, and the Sub-Committee would invite [all] [a limited⁸] number of FIP pilot countries to compete for the resources. The decision by the Sub-Committee as to which concept will receive funding will be facilitated by a committee composed of [7] [9] number of members from various stakeholder groups.
- (c) *Option 3:* The reserve would be managed as a private sector challenge fund. The Sub-Committee would invite private sector clients working in all FIP countries to compete for the resources. The decision by the Sub-Committee as to which concept will receive funding will be facilitated through the same procedure proposed under option 2.

⁸ Based on performance and the quality of their REDD+ and FIP investment plans

20. The three options are further described in the paragraphs below.

Option 1

21. This option would address the potential that a first-come-first-served approach might present a disadvantage for countries which experience a lengthier preparation process of their plans, projects/program concepts due to various circumstances, including the size of the country, institutional structures or the complexity of REDD+ in the country. Under this option, it is proposed that the Sub-Committee agrees on a preliminary distribution of the reserve to all FIP pilot countries as follows:

- a. *Grants*: Grant resources (USD 58.4 million) will be allocated proportionally to the eight pilot countries based on each country's first indicative allocation of the FIP financing.
- b. *Loans*: Loan resources (USD 50 million) will be allocated in equal shares to the eight pilot countries with the condition that countries in high or moderate debt distress may use such resources for private sector investments only.

Country	Preliminary grant allocation (total: USD 58.4million)	Preliminary concessional resources (total: USD 50million)
Burkina Faso	USD 4.2million	USD6.5million (Only for private sector)
Brazil	USD 9.7million	USD6.5million
DRC	USD 8.3million	USD6.5million (Only for private sector)
Ghana	USD 7.0million	USD6.5million (Only for private sector)
Indonesia	USD 9.7million	USD6.5million
Lao PDR	USD 4.2million	USD6.5million (Only for private sector)
Mexico	USD 8.3million	USD6.5million
Peru	USD 7.0million	USD6.5million

22. It is further proposed that reserve resources allocated to countries which are not able to submit proposals⁹ meeting the agreed criteria described in paragraph 14 within [12] months after the last investment plan is endorsed, will be made available to the other FIP programs on a competitive basis. The allocation of these competitive resources could be managed in accordance with option 2.

⁹ These can be new project/program proposals or requests for supplemental resources to an ongoing FIP investment.

Option 2:

23. This option proposes to manage the reserve resources as one pool. The Sub-Committee would invite clients in [all] [a limited number of] FIP pilot countries to submit project concepts to compete for the available resources. A committee composed of [7] [9] members would review the proposed proposals and rank the proposals in accordance with the criteria for accessing the reserve. The Sub-Committee would take into consideration the recommendations of the review committee when making a decision on how to distribute the funds.

24. Members of the review committee could include:

- g. [one][two] Sub-Committee members from recipient countries;
- h. [one][two] Sub-Committee members from contributor countries;
- i. two experts from the FCPF roster of experts;
- j. one Sub-Committee observer representative from civil society;
- k. one Sub-Committee observer representative from the private sector ; and
- l. one Sub-Committee observer representative from indigenous peoples groups.

25. Virtual meetings and other administrative tasks to facilitate the work of the review committee would be undertaken by the CIF Administrative Unit. If this option is selected by the Sub-Committee, an estimate of the costs will be prepared for approval of funding by the Sub-Committee.

Option 3:

26. This option proposes that the reserve resources be used to establish a private sector challenge fund. Under this option, the Sub-Committee would invite clients in all FIP pilot countries to compete for the available resources by submitting project and program concepts incentivizing the private sector to engage in FIP/REDD+.

27. During the country programming process, it has become apparent that the integration of the private sector in the planning process for FIP investments poses a challenge. Governments have expressed their wish to use the allocated FIP resources primarily for public sector investments. The establishment of a dedicated fund would serve as an incentive to the private sector to engage in the FIP pilot countries.

28. The review and selection of proposals would be managed through the same procedure described in option 2.

Review of Procedures

29. The Sub-Committee may wish to keep under consideration the agreed procedures should circumstances arise that may impact the reserve allocation or the endorsement schedule for investment plans.