

CLIMATE INVESTMENT FUNDS

CIF/DMFIP.2/2
February 24, 2009

Second Design Meeting on the Forest Investment Program
Washington, D.C.
March 5-6, 2009

FOREST INVESTMENT PROGRAM DESIGN DOCUMENT

(Prepared by the Forest Investment Program Working Group)

Note:

i. During the final design meeting of the Climate Investment Funds (Potsdam, May 2008), it was agreed that “a forest investment program should be established by the end of 2008 to mobilize significantly increased funds to reduce deforestation and forest degradation and to promote sustainable forest management, leading to emission reductions and the protection of carbon reservoirs. The FIP should be developed based on a broad and transparent consultative process. That process should take into account country led priority strategies for the containment of deforestation and degradation and build upon complementarities between existing forest initiatives”.

ii. The first design meeting for the development of the FIP was held in Washington, D.C., on October 16-17, 2008. Participants in the meeting included representatives from governments, UN agencies, NGOs, indigenous peoples, private sector, and other civil society groups.

iii. In the meeting, it was recognized that a principal objective of the FIP, as a program under the Strategic Climate Fund (SCF), is to pilot and demonstrate new approaches to forest management that lead to major impacts in reducing greenhouse gas emissions from forests. It was agreed that the objective of the FIP should be to pilot and demonstrate what can be achieved through scaling up of resources and activities so as to achieve transformational change at the national the national level. The FIP should leverage other resources, including from the private sector.

iv. The meeting agreed that in moving forward on the design of the FIP, it is important to have a fully consultative process. It recommended that the next step should be to establish a working group, comprising invited experts from governments, NGOs, indigenous peoples, private sector and UN agencies, to prepare a preliminary design document for consideration by the second design meeting.

v. The working group met on January 8-9, 2009, in Washington, D.C., and prepared this preliminary design proposal for the FIP for submission to the SCF Trust Fund Committee and the next design meeting.

vi. At its meeting in January 2009, the SCF Trust Fund Committee reviewed the preliminary design document and welcomed the work that had been carried out by the working group. In reviewing the design document, the following observations were made:

- (a) as a targeted program under the SCF, a critical starting point for the FIP should be its climate focus, the goal to achieve transformational impact through scaled-up financing, and the additionality of funding to be made available.
- (b) there if broad-based support for promoting the participation of indigenous peoples in the actions to be financed under the FIP;
- (c) in the design document, there should be more recognition of the relationship between the FIP and other processes. The relationship between FIP and the

World Bank's Forest Carbon Partnership Facility (FCPF) and other REDD initiatives should be further elaborated and their roles differentiated, possibly through providing some examples, and there should be a determined effort to ensure that synergies among the initiatives are maximized;

- (d) the monitoring and measurement of outcomes and results under the FIP should be designed so as to contribute to the understanding of how to measure, report and verify actions for REDD initiatives, including actions for institutional strengthening and development of the appropriate policy frameworks;
 - (e) consideration could usefully be given to following the model provided by the PPCR for selecting the pilot programs under the FIP; and
 - (f) in order to promote private sector involvement, consideration should be given to preparing private sector programming guidelines as an annex to the design document.
- vii. The Trust Fund Committee agreed to the following next steps:
 - (a) a consultant should be contracted to prepare, in consultation with indigenous peoples, a proposal for a special initiative for indigenous peoples for submission to a future design meeting.
 - (b) a second design meeting for the FIP will be convened in Washington in early March.
 - (c) the document agreed at the second design meeting should be circulated for review and written comments. The design document should then be revised, on the basis of the comments received, and disseminated in advance of a third design meeting to be convened in Washington in early May.
 - (d) the final design document is to be submitted to the SCF Trust Fund Committee for its review and approval at its meeting to be held during the week of May 11, 2009.
- viii. The Second Design Meeting is invited to review and revise the following preliminary design document prepared by the working group.

I. BACKGROUND

1. There is increasing consensus that addressing climate change is central to the sustainable development, economic growth and poverty reduction agenda. Increasing the resilience to climate change needs to combine both mitigation and adaptation measures. A delay in reducing greenhouse gas (GHG) emissions would significantly constrain opportunities to achieve lower stabilization levels and is likely to increase the risk of more severe climate change impacts. Climate change impacts have the potential to reverse hard-earned development gains and progress towards achieving the Millennium Development Goals.

2. Deforestation and degradation are the second leading cause of global warming. They account for approximately 18% of global greenhouse gas (GHG) emissions and over a third of emissions from developing countries. Although there remain divergent opinions as to how deforestation and forest degradation should be included in any future climate change regime, there is an emerging consensus that this issue must be effectively addressed. Several reports indicate that tackling forest loss is a critical activity in achieving stabilization of greenhouse gas concentrations in the atmosphere at a level that avoids the worst effects of climate change.

3. A recent 2007 UNFCCC study of investment and financial flows for forestry, reported that additional global investment and financial flows are needed to address the mitigation potential of forest-related measures. Additionally, while the direct and indirect drivers of deforestation and degradation are well known, there is limited knowledge regarding the relative effectiveness of alternative approaches to reversing those drivers under different national circumstances. Despite several decades of investment in efforts to reduce deforestation and degradation, there remain few examples of rigorous impact assessment, monitoring, and evaluation that would enable specific outcomes to be associated with specific interventions. There is thus an urgent need for the design of new investments in improved forest management to incorporate an explicit learning agenda to close this knowledge gap.

4. The Bali Action Plan calls for: “consideration of policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.”

5. Significant multilateral efforts to prepare developing countries for large scale efforts to reduce emissions from deforestation and forest degradation (REDD¹) are underway, first and foremost through the World Bank facilitated Forest Carbon Partnership Facility and the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD). These and other efforts, including national and bilateral programs in some

¹ For the remainder of this document, REDD should be taken to mean activities consistent with paragraphs 1 (b) (iii) of the Bali Action Plan as quoted in paragraph 4 of this document.

developing countries, are expected to identify large scale investment needs that will be prerequisites for the success of REDD activities on a national and global level.

6. A significant number of international and regional agreements, organizations and agencies are at the core of the forest financing architecture, with programs and projects implemented at the sub-national, national, regional and international levels. Many such programs and projects will contribute to the context and foundation for REDD initiatives by facilitating the readiness of countries to participate in REDD. Key organizations include Multilateral Development Banks (MDBs), UN, members of the Collaborative Partnership on Forests (CPF), bilateral aid programs, international NGOs, philanthropic organizations and the private sector.

7. The Strategic Climate Fund (SCF) was established to provide financing to pilot new development approaches or to scale-up activities aimed at a specific climate change challenge or sectoral response through targeted programs. An important objective of the SCF is to maximize co-benefits of sustainable development, particularly in relation to the conservation of biodiversity, natural resources ecosystem services and ecological processes. A Forest Investment Program (FIP) is to be established as a targeted program under the SCF.

II. OBJECTIVES AND PURPOSE OF THE FIP

8. The main purpose of the FIP is to support developing countries' REDD-efforts, providing up-front bridge financing for readiness reforms and 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 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.

9. The FIP will be designed to achieve four specific objectives:

- a) To serve as a vehicle to finance large scale investments necessary for the implementation of policies and measures that emerge from inclusive multi-stakeholder REDD planning processes at the national level;
- b) To promote transformational change – that is, by combining a high degree of cross-sectoral ownership at the national level with a scale of international funding larger than is typically associated with forest finance, support change of a nature and scope sufficient to catalyze nationally significant shifts from 'business as usual' policies, practices and development paths, or to re-enforce ongoing progress towards conservation and sustainable use of forests, as well as resulting in globally significant reductions in forest-based emissions trajectories;

- c) To generate understanding and learning of the links between investments and outcomes – that is, by committing to apply rigorous a priori and ex post impact assessment, the FIP will ensure that the outcomes and effectiveness of FIP-supported interventions in reducing deforestation and degradation can be measured, and
- d) To pilot replicable models to leverage additional and sustained financial resources for REDD – that is, to demonstrate approaches to implement REDD efforts in partnership with other sources of public and private finance to increase the volume and sustainability of support, and through this to provide valuable experience and feedback in the context of the UNFCCC deliberations on REDD.

III. FIP PRINCIPLES

10. The principles set out in the Governance Framework of the Strategic Climate Fund (SCF) apply to the FIP. In addition to the general SCF principles the following principles are important considerations for the FIP:

- a) **Climate change mitigation potential.** FIP investments should lead to significant reductions in deforestation and forest degradation and promote policies and measures for improved sustainable forest management that lead to emissions reductions and protection, maintenance and enhancement of carbon reservoirs;
- b) **National ownership and national strategies.** FIP pilot programs should be country-led and –owned, should build on, enhancing and strengthening existing nationally prioritized REDD efforts, and should respect national sovereignty;
- c) **Inclusive processes and participation of all important stakeholders, including indigenous peoples and local communities.** FIP-supported programs should be designed and implemented with the full and effective participation and involvement of – and with respect for the rights of – indigenous peoples, family forest owners and local communities at the country level, building on existing mechanisms for collaboration and consultation. FIP-financed activities should, moreover, be based upon effective collaboration between local communities, government ministries, private sector companies and financial institutions in planning and implementing programs;
- d) **Coordination with other REDD demonstration efforts.** The FIP should complement, be coordinated with and cooperate closely with other REDD demonstrations initiative and ongoing REDD efforts, such as FCPF and UN-REDD, and where applicable build directly on the efforts of the latter two initiatives.

- e) **Measurable outcomes and results based support.** The FIP should be results based over time, and promote measurable outcomes with regard to the effectiveness of FIP investments on REDD, livelihoods, climate resilience and other forest benefits. Performance measures, and procedures for performance assessment, should be part of the project design and should serve as a basis for course correction during the implementation;
- f) **Piloting.** The FIP should support pilot programs in order to demonstrate how to scale up resources and activities so as to achieve transformational change;
- g) **Forest related governance.** The FIP should capitalize on the lessons learned concerning inclusive and effective governance reform and support that the co-dependent relationship between such processes and forest related climate change outcomes is recognized and strengthened;
- h) **Address drivers of deforestation and avoid perverse incentives.** FIP pilot programs must assess and address drivers of deforestation and ensure a holistic national approach to REDD. Economic incentives and benefits systems should support sustainable forest practices by local forest dependent communities and where appropriate the private sector, as well as the maintenance of ecosystem services;
- i) **Contribute to sustainable development.** The FIP should ensure that its investments make a tangible contribution to the livelihoods of forest dependent communities as well as generate biodiversity benefits and ecosystem services;
- j) **Safeguarding High Conservation Value Forests.** The FIP should not support the conversion or unsustainable management of High Conservation Value Forests;
- k) **Investment need and integration.** The FIP should focus on meeting the financial gaps not covered by other climate and forest-related funding sources and initiatives, complementing the activities supported by them and leveraging further financial support;
- l) **Partnership with private sector.** The FIP should develop models for working with the private sector in effective implementation of REDD investment programmes;
- m) **Cooperation with other actors and processes.** The FIP should complement the aims and objectives of other global environmental conventions and processes, such as the Convention on Biological Diversity, the UN Convention to Combat Desertification, the Non-Legally Binding Instrument on all Types of Forests of the UNFF, and the

International Tropical Timber Agreement. It should cooperate closely with other international agencies and partnerships, such as the CPF, and with other relevant stakeholders, including IPGs, NGOs, and the private sector;

- n) **Early, integrated and consistent learning efforts.** Learning opportunities should be integrated into FIP programming from the start, including, where applicable, identification of pilot program approaches with significant potential for replication, and building in mechanisms for learning lessons from both successes and failures in collaboration with relevant stakeholders. The FIP should proactively communicate these lessons to others engaged in REDD efforts.

V. COUNTRY ELIGIBILITY

11. Country eligibility of the FIP will be based on:

- a) Official Development Assistance (ODA)-eligibility (according to the Organization for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) guidelines);
- b) An active MDB country program. For this purpose, an active” program means where an MDB has a lending program and/or on-going policy dialogue with the country.

VI. CRITERIA FOR SELECTION OF PILOT PROGRAMS

12. Transformational impact through a few programs should be prioritized over limited impact in many programs. The number and extent of pilot programs will be proportional to the resources available, and can thus only be determined once there is a clear idea on the magnitude of contributions. The selection of pilot programs should be based on the following criteria:

- a) Program potential to contribute to FIP objectives described above under “Section II. Objectives and Purpose of FIP”, and adherence to the principles described under “Section III. FIP Principles”;
- b) Country preparedness and ability – institutional and otherwise – to undertake REDD initiatives, taking into account government efforts to date and government willingness to move to a strategic approach to REDD and to integrate the role of forests into development. The selection of pilot programs would also be made on the basis of a REDD investment note, demonstrating that a REDD strategy and investment portfolio is at an advanced stage of development;

- c) Country distribution across regions and biomes, ensuring that pilot programs generate lessons on how to go to scale with respect to immediate action to curb high rates of deforestation, maintenance of existing carbon stocks within pristine forests, enhancement of carbon stocks on degraded forest lands and building effective capacities for sustainable forest management.

VII. FIP SUB-COMMITTEE

13. Consistent with the SCF Governance Framework, the SCF Trust Fund Committee will establish a Sub-Committee for the FIP to oversee the operations and activities of the Pilot Program.

14. It is proposed that the FIP-SC consist of:

- a) up to six representatives from contributor countries to the FIP, identified through a consultation among such contributors, and at least one of which should be a member of the SCF Trust Fund Committee;
- b) a matching number of representatives from eligible recipient countries to the FIP, selected on a regional basis and identified through consultations among such countries, at least one of which should be a Member of the SCF Trust Fund Committee. For this purpose, an eligible recipient country means any country, which is eligible under paragraph 15 above; provided, however, to the extent that any country is selected as pilot country for the FIP at the time of the selection of the representatives, any such country on the list of pilot countries shall be given priority to represent eligible recipient countries under this paragraph;
- c) [Two representatives each from indigenous peoples, NGOs, and the private sector, identified through an open and inclusive self-selection process.]

15. All pilot countries under the program, members of the MDB Committee and the Trustee may attend the FIP-SC as observers.

16. To ensure good linkages and effective cooperation with key partners so as to promote the efficient use of resources and complementarity with other sources of financing, the FIP-SC should seek advice from, and invite as observers, representatives of other organizations with a mandate to promote forest and climate change investments, including the FAO, FCPF secretariat, the Global Environment Facility, ITTO, UNDP, UNEP, UNFCCC, UNFF, and UN-REDD technical secretariat.

17. Civil society should also be invited to identify observers, including representatives from the North and from the South through an open and inclusive self-selection process.

Functions of the FIP-SC

18. The FIP-SC will be responsible for:

- a) appointing the expert group and approving criteria and guidance to be followed by the group based on objectives and purpose of FIP (section II), principles of FIP (section III), country eligibility criteria (section V), criteria for selection of pilot programs (section VI), and programming processes (section IX).
- b) selecting pilot programs based on specified country eligibility criteria and program selection criteria, and recommendations of the expert group;
- c) approving programming priorities, operational criteria and financing terms and modalities for the FIP, including modalities for private sector activities;
- d) approving FIP financing for programs and projects;
- e) ensuring complementarity between activities foreseen for the FIP and activities of developing countries, other development partners active in the field of climate change and forests, including the FCPF and other MDB efforts, UN-REDD and other UN efforts, and GEF;
- f) ensuring that FIP program design builds in provisions for evaluating the performance and effectiveness of FIP investments;
- g) ensuring that lessons learned are transmitted through the SCF Trust Fund Committee to the UNFCCC and to other stakeholders; and
- h) exercising such other functions as they may deem appropriate to fulfill the purposes of the FIP.

VIII. EXPERT GROUP

19. An Expert Group should be established and provided with appropriate criteria and guidance by the FIP-SC to make recommendations on selection of pilot programs for the FIP.

20. The Expert Group should include up to eight individuals, acting in their personal capacities, chosen on the basis of their expertise, strategic and operational experience and diversity of perspectives, including knowledge of scientific, economic, environmental and social aspects of conservation and sustainable use of forest ecosystems and climate change, governance and institutional and development planning. The Expert Group members should be selected in accordance with criteria to be approved by the FIP-SC, taking into account professional qualifications of the experts. The group should include

experts from both developed and developing countries, and should receive support required to fulfill their functions properly.

IX. FIP PROGRAMMING PROCESSES

21. FIP programming will be initiated by a FIP-SC tender for proposals for REDD investment strategy proposals, see paragraph 12(b). Governments should develop the investment strategy proposals building and expanding on earlier multi-stakeholder priority setting processes and existing planning frameworks. Those processes should be inclusive, transparent and participatory, involving sectoral ministries, development partners working in the country, including MDBs, bilateral development agencies, NGOs, indigenous peoples, forest dwellers, the private sector and other stakeholders.

22. In preparing investment strategy proposals, governments should specify whether individual projects are to be executed by national, regional, or local governments, IPGs, community based organizations, NGOs, private enterprise and other members of civil society.

23. A group of countries may propose to the FIP-SC a regional or sub-regional investment strategy proposal that brings together a number of country activities. A regional or sub-regional program will be considered one pilot in the program.

24. The investment strategy proposals will be evaluated by the expert group in the process of preparing recommendations on the selection of pilot programs. The FIP-SC will decide on the final selection of pilot programs.

25. For each selected pilot program, and in response to a country request, the MDBs concerned will organize a joint mission to discuss with the government, other development partners, including UN agencies, private industry, NGOs, indigenous peoples and other forest dependent communities, as well as other stakeholders how the FIP may help refine and finance the proposed program activities. The FIP-SC and observers invited to the SC will be informed in advance of the joint mission. The outcome of the collaborative exercise will be a detailed investment plan, developed under the leadership of, and owned by, the recipient country, for the use of FIP resources through a joint MDB program. Investment plans will be submitted to the FIP-SC for endorsement.

26. The further processing of a program or project will follow the MDB's policies and procedures for appraisal, MDB approval and supervision.

27. The very wide spectrum of potential areas for FIP investment highlights the importance of encouraging governments to prioritize requests for FIP support. This process should have been previously embarked upon through national REDD readiness efforts, and could be further refined as part of preparation for FIP applications. Special emphasis should be given to a programmatic approach to addressing the underlying

causes of deforestation and degradation in as short as possible a time frame at reasonable cost and in ways that will optimize the multiple benefits of forests.

X. INDIGENOUS PEOPLES AND LOCAL COMMUNITIES DEDICATED INITIATIVE

28. The effective and continuous participation of indigenous peoples (IPs) and local communities in FIP pilot programs is crucial to the success of those programs, and will be highly dependent on increasing the capacity of these groups to become informed and active players in national REDD processes in general and FIP processes in particular. This need should be addressed by directly making indigenous peoples and local communities able to access specific grants for that purpose.

29. The operation, funding modalities and governance of such a mechanism will be developed through a process involving appropriate stakeholders. A more detailed proposal will be presented to the final design meeting.

XI. MONITORING AND EVALUATION

30. Based on the monitoring results of the MDBs, the FIP-SC will report regularly to the SCF Trust Fund Committee, and an independent joint evaluation of the operations of the FIP and its activities will be carried out after three years of operations by the independent evaluation departments of the MDBs. Results achieved through the FIP should be published and made publicly available. Full reporting criteria, including results measurement at the programmatic, country and institutional levels, will be proposed by the FIP-SC and approved by the Trust Fund Committee of the SCF. The key performance criteria should pertain to emissions reductions achieved or emissions avoided.