

# CLIMATE INVESTMENT FUNDS

FIP/SC.11/5/Rev.1  
October 10, 2013

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Meeting of the FIP Sub-Committee  
Washington D.C.  
October 30, 2013

Agenda Item 5

**REVIEW AND SELECTION OF CONCEPTS  
TO BE FINANCED FROM THE FIP PRIVATE SECTOR SET ASIDE**

## PROPOSED DECISION

The FIP Sub-Committee reviewed document, FIP/SC.11/5/Rev.1 *Review and selection of concepts to be financed from the FIP private sector set aside*, and notes with appreciation the work of the expert group.

The FIP Sub Committee:

- a) endorses the following project concepts to be further developed for FIP funding approval:  
  
...;
- b) invites the MDBs for the selected project concepts to prepare, in collaboration with the project proponent, a detailed project document and submit it to the FIP Sub-Committee for FIP funding approval; and
- c) requests the CIF Administrative Unit, in collaboration with the MDBs and the pilot countries, to further analyze the effectiveness and value-added of the FIP private sector set-aside, including its competitive selection process with a view to improve the current procedures should a second round of funding be made available and to share lessons learned with interested stakeholder groups. Results from the analysis and lessons learned should be shared at the next FIP Sub-Committee meeting.

## I. INTRODUCTION

1. During its meeting in November 5, 2012, the FIP Sub-Committee reviewed document FIP/SC.8/5, *Procedures for Allocating Funds under the FIP Reserve*. The Sub-Committee referred further consideration of this item to a working group to be convened by the Co-Chair, and agreed that the proposals of the working group on arrangements for allocating FIP resources from a set aside of funds to be allocated on a competitive basis should be circulated to the Sub-Committee for approval by mail.
2. The Sub-Committee agreed that USD56 million in concessional funds should be set aside for allocation to programs and projects, selected on a competitive basis, that promote innovative approaches to engage the private sector in the pilot countries. Consistent with the decision, a FIP Sub-Committee working group was formed which met on November 6, 2012 to discuss and finalize the arrangement. The *Procedures for Allocating FIP Resources on a Competitive Basis from a Set Aside* (annexed to this report) were subsequently approved by the FIP Sub-Committee on December 16, 2012 through a decision-by-mail.
3. In accordance with paragraphs 6 and 7 of the approved procedures, the CIF Administrative Unit invited focal points in FIP pilot countries and FIP contributor countries to submit names and resumes of experts with appropriate experience, including experience with private sector development and/or investment for the expert panel. Eleven experts were proposed.
4. The MDB Committee met on June 19 and agreed on four experts from among those proposed (two nominated by pilot countries and two nominated by contributor countries). On August 1, 2013, the CIF Administrative Unit, submitted the list of the following four experts to the FIP Sub-Committee for approval by mail:
  - a) Frank Hajek (Chair ), UK<sup>1</sup>
  - b) David Kaimowitz, USA
  - c) Kinkela Savy Sunda, DRC
  - d) Meire de Fatima Ferreria, Brazil (unable to attend due to personal reasons)
5. The composition of the independent expert group was approved on August 8, 2013.
6. The expert group met from September 17-19, 2013 in Washington DC.
7. Eleven concepts were submitted to the CIF Administrative Unit by the MDBs for review by the expert group. Proponents from the following FIP pilot countries submitted concepts through the MDBs: Brazil, Burkina Faso, DRC, Ghana, and Mexico. Additionally, one regional proposal was submitted for Burkina Faso, DRC and Ghana.

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<sup>1</sup> In place of James Sandom

8. Despite the provision of concessional finance only, some proposals request also grant resources. Currently, all grant funding has been indicatively allocated to the FIP pilot countries and future activities supported through the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities.

9. Consistent with paragraph 5 of the procedures, the expert group prioritized the concepts based primarily on the ability of projects to advance FIP program objectives, and investment criteria, as well as additional objectives contained in the FIP set-aside design document:

- a) alignment with the objective of the country investment plans;
- b) level of innovation proposed;
- c) implementation feasibility within 9-18 months after funding approval by the FIP Sub-Committee; and
- d) progress that has been achieved in implementing other projects under the endorsed investment plan.

10. The expert group has

- a) ranked and recommended that 4 concepts, totaling funding requests for USD 20.3 million (USD 20.3 million in loans), to be funded once comments made in the report are adequately addressed;
- b) ranked and recommended additional 4 concepts, totaling funding request for USD 31.02 million (USD 31.02 million in loans), to be funded if detailed due diligence by the proposing MDB proves feasibility; and
- c) concluded that 3 concepts not be funded as they do not meet the criteria mentioned in paragraph 8. A summary of the project rankings and funding requests is presented in table 1.

11. Consistent with paragraph 6 of the procedures, in proposing the list of concepts, the review group developed a scoring system as a qualitative explanation for its recommendations and prioritization. The common format facilitated comparability among the proposals and demonstrates a consistent application of the criteria. The details of this scoring system as well as initial lessons learned are further described in the report of the independent expert group.

12. The following annexes are included in this document:

- a) Annex I: Report of the Independent Expert Group
- b) Annex II: MDB Comments on the Expert Group Report for FIP
- c) Annex III: Procedures for Allocating FIP Resources on a Competitive Basis from a Set Aside.

**Table 1: Summary of FIP Project Rankings and Funding Requests**

Country	Project Name	MDB	Total Score	Grants (USD million)	Loan (USD million)	Total Request (USD million)	Recommendations
Brazil	Macauba Palm Oil in Silvicultural System	IDB	37.7	0	3	3	Fund once comments addressed
Burkina Faso	Climate change mitigation and poverty reduction through the development of the cashew sector in Burkina Faso	AfDB	33.7	0	4	4	
Ghana	Public-Private Partnership for restoration of degraded forest reserve through VCS and FSC certified plantations	AfDB	33.3	0	10.3	10.3	
Mexico	Guarantee Fund for financing low carbon forestry investments	IDB	33.3	0	3	3	
<b>Sub-Total</b>				<b>0</b>	<b>20.3</b>	<b>20.3</b>	
DRC	Community acacia and palm oil plantations on degraded lands to reduce deforestation in the Bandundu Province	AfDB	31.7	0	4	4	Fund only if detailed due diligence proves positive
Burkina Faso	Powering climate-smart rural development in Burkina Faso	AfDB	28.7	0	5	5	
Brazil	Commercial Reforestation of Modified Lands in Cerrado	IFC	28.0	0	15	15	
DRC	Novacel Sud Kwamouth	IBRD	23.7	0	7.02	7.02	
<b>Sub-Total</b>				<b>0</b>	<b>31.02</b>	<b>31.02</b>	
Regional	Supporting forest plantations for climate change mitigation	AfDB	22.6	0.1	15	15.1	Do not fund in current format
Brazil	Biodiversity and carbon stock conservation, agricultural best practices and transparency in land-use planning in plantation forestry expansion areas in the States of Maranhão and Tocantins, Brazil	-	20.3	7	0	7	
DRC	LEAF Improved Cookstoves Project: Scale Up to East of Kinshasa	IBRD	16.0	0	5.4	5.4	

## ANNEX I: REPORT OF THE INDEPENDENT EXPERT GROUP

### Executive Summary

The EG feels that four of the proposed projects (total requested funding of US\$20.3 million) are potentially transformative FIP interventions and recommend that they be funded as soon as the comments made in this report are adequately addressed. Additionally, we feel a further four of the proposed projects (total requested funding of US\$31.02 million) are potentially robust FIP interventions and recommend that they be funded if detailed Due Diligence by the proposing MDB proves positive. Finally, we feel that three project proposals (total requested funding of US\$27.5 million) are weak and recommend that they should not be funded in their current form.

Project	Total Score	Key points from Qualitative Assessment	Recommendation
Macauba Palm Oil in Silvicultural System, Brazil	37.7	Innovative, cost effective, with livelihood and ecosystem co-benefits. Transformational for silvicultural sector.	Fund once comments addressed
Cashew Plantations with Farmer Assoc., Burkina Faso	33.7	Proven job creation and local governance benefits. Transformational for communities and cashew sector.	Fund once comments addressed
FSC & VCS Certified Teak Plantations, Ghana	33.3	Robust economics, clear scalability and regulatory aspects, grounded in local context. Transformational for forestry plantation sector.	Fund once comments addressed
Guarantee Fund for Forestry Investments, Mexico	33.3	Innovative, strong livelihood benefits and transaction cost reduction potential. Transformational for scaling forestry finance.	Fund once comments addressed
Acacia and Palm Oil Plantations in Bandundu, DRC	31.7	Significant livelihood co-benefits. Executing agency may lack technical and human resources for adequate implementation.	Fund only if detailed Due Diligence proves positive
Climate-smart Rural Development, Burkina Faso	28.7	Innovative, integrated business serving local markets, with significant livelihood benefits. Commercial viability of jatropha to be checked.	Fund only if detailed Due Diligence proves positive
Teak on Modified Cerrado Lands, Brazil	28.0	Considerable climate change mitigation, leveraging additional financial resources. Technical sophistication may limit scalability.	Fund only if detailed Due Diligence proves positive
Acacia Plantations in Sud Kwamouth, DRC	23.7	Innovative reforestation with livelihood and community co-benefits. Project has failed to meet targets in past, complex donor relations.	Fund only if detailed Due Diligence proves positive
Forest Plantations, Africa Regional	22.6	Project needs to be reassessed once there is more detailed forestry information and concrete interest from financial intermediary institutions.	Do not fund in current form
Eucalyptus plantations in Maranhao & Tocantins, Brazil	20.3	No quantitative explanation of climate change mitigation and livelihood co-benefits. Unclear as to whether government can follow up project.	Do not fund in current form
LEAF Improved Cookstoves in Kinshasa, DRC	16.0	Business model not sustainable, demand not adequately presented. No cookstove track record in country, no analysis of competition.	Do not fund in current form

## **1.0 Introduction**

Four experts were convened for the Expert Review Group (EG) by the CIF Administrative Unit (see Appendix 1 for contact details). Experts were sent the 11 submitted proposals and other preparatory documentation by e-mail, and held a virtual work meeting on Wednesday 28<sup>th</sup> August. The team met in the World Bank's Washington DC offices between the 16<sup>th</sup> and 19<sup>th</sup> September to work on the review with the facilitation of the CIF Administrative Unit. Due to an unforeseen personal loss, one of the consultants could not attend the working meeting in DC.

## **2.0 Duties of Expert Group**

The terms of reference and working modalities for the EG can be seen in Appendix 2. The EG duties are:

1. Review the received concepts in accordance with the following criteria:
  - a) ability to advance FIP program objectives, principles and investment criteria, as contained in the FIP design document and investment criteria,
  - b) alignment with the objective of the country investment plans;
  - c) level of innovation proposed;
  - d) implementation feasibility within 9-18 months after funding approval by the FIP Sub-Committee; and
  - e) progress that has been achieved in implementing other projects under the endorsed investment plan.
2. Prepare a list of priority concepts recommended for the allocation of FIP resources available in the set aside (USD 56 million)<sup>1</sup>;
3. Include an additional list of concepts, for up to USD 28 million (50% of the level of funding available in the set aside), for consideration by the Sub-Committee ;
4. Prepare a report for consideration by the FIP Sub-Committee which includes the list of priority concepts, the additional list of concepts, a qualitative explanation for the recommendations and prioritization, and a description of the methodology used for scoring the submitted concepts.

## **3.0 Project Proposals**

Eleven project proposals were submitted to the CIF Administrative Unit, amounting to a total funding request of US\$78.8 million. The proposals are summarized in Table 1.

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<sup>1</sup> However, there should be a clear minimum set of criteria that must be met. If there are not a sufficient number of good quality concepts then the working group need not recommend a full allocation of the resources.

**Table 1 – Summary of submitted project proposals**

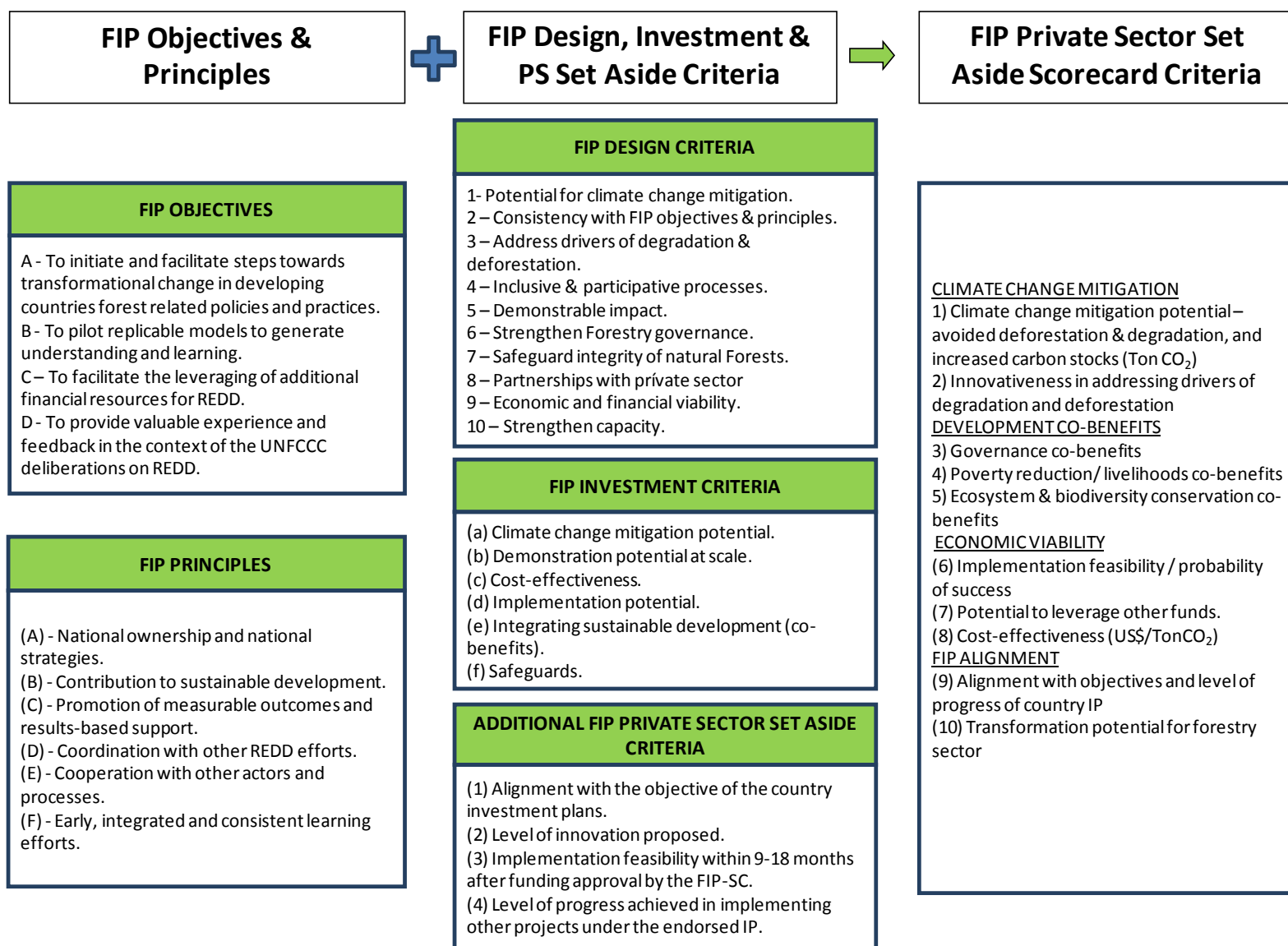
	<b>Title</b>	<b>Country</b>	<b>MDB</b>	<b>Funding Request (US\$)</b>
1	Macauba: Plant Oil with Impact	Brazil	IADB-FOMIN	3 million as non-grant
2	Biodiversity and carbon stock conservation, agricultural best practices and transparency in land-use planning in plantation forestry expansion areas in the States of Maranhão and Tocantins	Brazil	Direct submittal to CIF	7 million as grant
3	Commercial Reforestation of Modified Lands in Cerrado	Brazil	IFC	15 million as non-grant (equity)
4	Climate change mitigation and poverty reduction through the development of the cashew sector with Wouol Farmers Association	Burkina Faso	AfDB	4 million as non-grant (loan)
5	Powering climate-smart rural development	Burkina Faso	AfDB	5 million as non-grant
6	Community acacia and palm oil plantations on degraded lands to reduce deforestation in the Bandundu Province	DRC	AfDB	4 million as non-grant (loan)
7	Novacel Sud Kwamouth	DRC	IBRD	7.023 million as non-grant
8	LEAF Improved Cookstoves Project: Scale Up to East of Kinshasa	DRC	IBRD	5.403 million as non-grant
9	Public-Private Partnership for restoration of degraded forest reserve through VCS and FSC certified plantations	Ghana	AfDB	10.3 million as non-grant (loan)
10	Guarantee Fund for financing low carbon forestry investments	Mexico	IADB-FOMIN	3 million as non-grant
11	Supporting forest plantations for climate change mitigation	Africa Regional	AfDB	15 million as non-grant, 0.1 million as grant

#### **4.0 Methodology used for scoring the submitted proposals**

As per the ToR, the EG carried out a qualitative assessment of the strengths and weaknesses, as well as quantitative scoring, of each proposal. The first task undertaken by the EG was to define more precisely the Criteria for the quantitative scoring of the submitted proposals. On the basis of FIP documentation and EG discussions a set of ten Criteria were agreed, broadly encompassed in 4 themes: climate change mitigation potential, development co-benefits, economic viability and FIP alignment. The ten Criteria and how they align with the FIP Logic can be seen in Figure 1.



**Figure 1 – Agreed FIP Private Sector Set Aside Scorecard Criteria**



For each of the ten Criteria, the EG defined 5 scoring categories. The description of the scoring categories can be seen in Table 2. Each project could therefore obtain a maximum total score of 50. The following guidelines were used in the scoring process:

Criteria 1 - Potential to avoid deforestation & degradation, and increase carbon stocks (Ton CO<sub>2</sub>): Using the numeric information available in proposal, the mitigation potential of each project over 10 years was calculated and ranked. Score awarded resulted from discussion and consensus by reviewer team.

Criteria 2 - Innovativeness in addressing drivers of deforestation and degradation and/or increasing carbon stocks: the innovativeness of projects was scored based on reviewer experience of innovation in the forestry sector. Each reviewer scored individually and arithmetic mean calculated for score.

Criteria 3 - Governance co-benefits: Reviewers judged the level of coherence between the project and the governance objectives of the Investment Plan of project's host country. Each reviewer scored individually and arithmetic mean calculated for score.

Criteria 4 - Poverty reduction and livelihoods co-benefits: Each reviewer judged the level of coherence between the Project and the poverty reduction and livelihoods objectives of the Investment Plan of project's host country. Each reviewer scored individually and arithmetic mean calculated for score.

Criteria 5 - Ecosystem and biodiversity conservation co-benefits: Each reviewer judged the level of coherence between the Project and the ecosystem and biodiversity conservation objectives of the Investment Plan of project's host country. Each reviewer scored individually and arithmetic mean calculated for score.

Criteria 6 - Implementation feasibility and probability of Project success: The review team estimated implementation feasibility & probability of success based on knowledge of sector & country. Score awarded resulted from discussion and consensus by reviewer team.

Criteria 7 - Potential to leverage other funds: The review team evaluated if the counterparty funds mentioned in the Proposal appear realistic and additional. Revenues from Project once in execution not included, as not mentioned consistently across projects. Score awarded resulted from discussion and consensus by reviewer team.

Criteria 8 - Cost-effectiveness (US\$/TonCO<sub>2</sub>): Divide Ton Carbon estimated for Criteria 1 by the funding requested to FIP and then rank accordingly. Score awarded resulted from discussion and consensus by reviewer team.

Criteria 9 - Alignment with objectives & level of progress of country Investment Plan: Each reviewer will judge the level of coherence between the Project and the objectives of the Investment Plan of project's host country. Each reviewer scored individually and arithmetic mean calculated for score.

Criteria 10 – Forestry sector transformation potential: Based on the FIP Design Criteria, each Project's potential to scale and to transform the forestry landscape was assessed. Score awarded resulted from discussion and consensus by reviewer team.

**Table 2 – Scorecard Categories for each Criteria**

FIP CRITERIA		SCORING				
		1	2	3	4	5
<b>CLIMATE CHANGE MITIGATION</b>						
1	Potential to avoid deforestation & degradation, and increase carbon stocks (Ton CO2)	9, 10 & 11th rank proposals	7th & 8th ranked	5th & 6th ranked	3rd & 4th ranked	1st & 2nd ranked
2	Innovativeness in addressing drivers of D & D and/or increasing C stocks	Not innovative	Weakly innovative	Fairly innovative	Highly innovative	Very highly innovative
<b>DEVELOPMENT CO-BENEFITS</b>						
3	Governance co-benefits	Very weak	Weak	Adequate	Strong	Very Strong
4	Poverty reduction/ livelihoods co-benefits	Very weak	Weak	Adequate	Strong	Very Strong
5	Ecosystem & biodiversity conservation co-benefits	Very weak	Weak	Adequate	Strong	Very Strong
<b>ECONOMIC VIABILITY</b>						
6	Implementation feasibility and probability of Project success	Very unlikely	Unlikely	Moderately likely	Likely	Very likely
7	Potential to leverage other funds	Below 1:1	1:1 to 1:3	1:3 to 1:5	1:5 to 1:8	Above 1:8
8	Cost-effectiveness (US\$/TonCO2)	9, 10 & 11th rank proposals	7th & 8th ranked	5th & 6th ranked	3rd & 4th ranked	1st & 2nd ranked
<b>FIP ALIGNMENT</b>						
9	Alignment with objectives & level of progress of country IP	Very weak	Weak	Adequate	Strong	Very Strong
10	Transformation potential	Very weak	Weak	Adequate	Strong	Very Strong
<b>Total maximum scores</b>		<b>10</b>	<b>20</b>	<b>30</b>	<b>40</b>	<b>50</b>

#### 4.0 Project Review Results

Each project was scored according to the Criteria described in Figure 1 and the Scoring Categories described in Figure 2. A total score for each Project was obtained by the addition of the 10 scores, as presented Table 3.

**Table 3 – Quantitative Scorecard Results**

	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	Total Score
<b>Macauba Palm Oil in a Silvicultural System, Brazil</b>	3.0	4.7	3.0	4.3	4.0	3.0	1.0	5.0	4.7	5.0	<b>37.7</b>
<b>Eucalyptus plantations in Maranhao &amp; Tocantins, Brazil</b>	1.0	2.3	2.0	2.3	2.0	3.0	1.0	1.0	3.7	2.0	<b>20.3</b>
<b>Teak on Modified Cerrado Lands, Brazil</b>	4.0	2.3	2.0	3.0	3.0	3.0	4.0	1.0	3.7	2.0	<b>28.0</b>
<b>Cashew Plantations with Farmers Association, Burkina Faso</b>	2.0	4.0	4.7	4.7	3.0	3.0	1.0	3.0	3.3	5.0	<b>33.7</b>
<b>Climate-smart Rural Development, Burkina Faso</b>	3.0	3.3	2.3	3.0	3.0	2.0	2.0	4.0	3.0	3.0	<b>28.7</b>
<b>Acacia and Palm Oil Plantations in Bandundu, DRC</b>	5.0	3.0	3.0	3.0	3.3	1.0	2.0	5.0	3.3	3.0	<b>31.7</b>
<b>Acacia Plantations in Sud Kwamouth, DRC</b>	2.0	3.7	3.0	3.0	2.3	3.0	1.0	2.0	2.7	1.0	<b>23.7</b>
<b>LEAF Improved Cookstoves in Kinshasa, DRC</b>	1.0	2.3	1.7	2.3	2.3	1.0	1.0	1.0	2.3	1.0	<b>16.0</b>
<b>FSC &amp; VCS Certified Teak Plantations, Ghana</b>	4.0	3.3	4.0	3.0	3.3	4.0	2.0	3.0	4.7	2.0	<b>33.3</b>
<b>Guarantee Fund for Forestry Investments, Mexico</b>	1.0	5.0	3.3	3.7	2.3	4.0	4.0	2.0	4.0	4.0	<b>33.3</b>
<b>Forest Plantations, Africa Regional</b>	5.0	2.3	1.3	1.3	2.0	1.7	2.0	3.0	2.0	2.0	<b>22.6</b>

A summary of the qualitative assessment of the projects follows:

**1 - Macauba Palm Oil in a Silvicultural System, Brazil**

**Strengths:** Highly innovative approach to addressing drivers of deforestation and degradation and significant potential for scaling up geographically (10million+ hectares) - can take the adoption of silvopastoral systems in Brazilian society to a new level. High involvement of local land owners and recovery of carbon stocks with a native species. Cost effective intervention, well aligned with Brazil IP.

**Weaknesses:** Unproven concept: therefore reasonable degree of operational failure (productivity per hectare) and uncertainty of market acceptance of macauba oil. The low involvement of other partners/funding weakens scalability potential. Should increase effort in broadening the partner/funding base of the Project, as well as provide more information of break-even price point and market niche/s of macauba oil.

**2 - Eucalyptus plantations in Maranhao & Tocantins, Brazil**

**Strengths:** The project addresses a priority of the Brazilian government and IP, namely the implementation of CAR.

**Weaknesses:** No quantitative explanation of Ton/Carbon sequestered. Lots of workshops, but no mention of permanent job creation or income generation. Vague about babacu palm intervention approach; how are current production and women livelihood strategies

strengthened? No other funds leveraged and 100% grant request. It is not clear whether the Susano pulp plantation project will go ahead with or without the FIP Grant Project proposed. Due to this our assessment has treated the projects as independent. Unclear as to whether there is MDB backing for this project. No clarity if the states of Tocantins and Maranhao have the technical and financial resources to process and act on the CAR submissions resulting from the project, hence impact is highly uncertain.

### 3 - Teak on Modified Cerrado Lands, Brazil

**Strengths:** Large project with considerable climate impact potential, which leverages considerable additional financial resources.

**Weaknesses:** The cost per Ton/C sequestered is quite high. High level of technical sophistication and long timeframe may reduce local livelihoods and regional scalability of project.

### 4- Cashew Plantations with Farmers Associations, Burkina Faso

**Strengths:** Significant local-governance and gender-based governance potential. Proven job creation potential, income diversification and increased enterprise capacity of local population. Strong focus on access to markets (including base price guarantee for farmers), on established certification processes, and on improvement of product quality. The project aims to supply about 0.1% of global market. Replication by other Community-based-Enterprises can place Burkina in the global cashew producers cluster (If scaled it has the potential to transform Burkina Faso's role in global cashew nut supply) and create significant social capital for rural governance in the country.

**Weaknesses:** Apparent low capacity to leverage other funds, potentially resulting in low financial resilience of project.

### 5- Climate-smart Rural Development, Burkina Faso

**Strengths:** An innovative, integrated business model with local demand for its products, with potentially cost-effective climate impacts, and a management team with a proven track record.

**Weaknesses:** Jatropha has a poor track record of profitability and the project documentation does not address the issues that have caused problems for jatropha in other countries. Though AgriTech seems to have a solid Board of Directors and management team, the annual reports and financial statements should be requested and a thorough due diligence undergone regarding the jatropha aspects of their business model.

### 6 - Acacia and Palm Oil Plantations in Bandundu, DRC

**Strengths:** The combined palm oil and acacia plantations have the potential to sequester significant CO<sub>2</sub>, at a relatively low cost. Significant livelihood co-benefits once local population engaged in the acacia and palm oil production.

**Weaknesses:** From the proposal it is not possible to evaluate if the executing agency, GECOTRA SPRL, has the experience and team to successfully plant and manage 4000 hectares of plantations. It would appear that this is a company with very limited assets and technical capability. It is important that the BMD check the financial statements and annual report of GECOTRA carefully.

### 7 –Acacia Plantations in Sud Kwamouth, DRC

**Strengths:** Innovativeness and drive of project team has resulted in acacia plantation and cassava processing facilities in a difficult work environment. Ongoing working relationship with community and capacity building NGO is an important asset.

**Weaknesses:** Original plantation target in Ibi met only 25% (approximately 1000 of 4000 Ha). This project aims to plant 4780 Ha extra in Ibi and only 1000 in Sud Kwamouth. Community agroforestry component mentioned but not funded under this proposal. Unclear how the different donors and funders in this project are cooperating.

#### 8 - LEAF Improved Cookstoves in Kinshasa, DRC

**Strengths:** The project attempts to meet an important health and environmental need with a clear market opportunity in Kinshasa.

**Weaknesses:** The business model does not seem sustainable (price point, negative gross margin, doubtful market segmentation, import vs. local construction, etc). Neither of the project partners have a track record in the cook stove sector in DRC. Disruptive innovations for the project concept (eg. development of gas stove sector) not discussed.

#### 9 - FSC & VCS Certified Teak Plantations, Ghana

**Strengths:** Considerable CO2 sequestration potential, well aligned with governance objectives of Ghana PI. The economic and regulatory viability of the project is solidly presented and significant additional funding may be leveraged. This project can set a valuable, scalable precedent for forestry plantations in Ghana, in a context of rapidly depleting forest resources.

**Weaknesses:** the proposal is not clear as to how the possible conflict with 'squatter' farmers will be resolved in a locally and politically acceptable manner. Local livelihood benefits needed to be analyzed and more detailed explanation given.

#### 10- Guarantee Fund for Forestry Investments, Mexico

**Strengths:** A Fund Guarantee for Forestry would be innovative in Mexico (the agriculture sector is already served by this type of instrument), significantly leveraging other funds and aligning with IP Financiera Rural Project. Strong livelihood improvement and transaction cost reduction potential by working through 'ejidos', cooperatives and other associative structures.

**Weaknesses:** The Project is not explicit about how it will address unmet community forestry credit needs, as opposed to well served agricultural credit needs. A more detailed explanation about how the private credit investments supported by the Guarantee Fund are monitored and evaluated, in order to ensure coherence with the country IP, is needed.

#### 11- Forest Plantations, Africa Regional

**Strengths:** The proposal claims considerable cost-effective climate impacts, supporting reforestation, an activity well aligned with the IPs of the three African FIP countries.

**Weaknesses:** It is not possible to evaluate the local context/ feasibility of the benefits proposed by this proposal due to an absence of concrete data. It is also not clear if there is demand from local banks and financial institutions to act as executing agencies of this Project. Absence of detailed information makes it not possible to evaluate the performance for the agreed Criteria. The willingness of the AfDB to commit its own funds remains uncertain.

By combining the quantitative and qualitative assessments, we reach the recommendations presented in Table 4. The EG feels that four of the proposed projects, totaling funding requests for US\$20.3 million, are potentially transformative FIP interventions and recommend that they be funded as soon as the comments made in this report are adequately addressed. Additionally, we feel a further four of the proposed projects, totaling funding requests for US\$31.02 million, are potentially robust FIP interventions and recommend that they be funded if detailed Due Diligence by the proposing MDB proves positive. Finally, we feel that three project proposals, totaling funding requests for US\$27.5 million, are weak and recommend that they should not be funded in their current form.

**Table 4 – Review Recommendations**

<b>Project</b>	<b>Total Score</b>	<b>Key points from Qualitative Assessment</b>	<b>Recommendation</b>
Macauba Palm Oil in a Silvicultural System, Brazil	37.7	Innovative, cost effective, with livelihood and ecosystem co-benefits. Transformational for silvicultural sector.	Fund once comments addressed
Cashew Plantations with Farmer Assoc., Burkina Faso	33.7	Proven job creation and local governance benefits. Transformational for communities and cashew sector.	Fund once comments addressed
FSC & VCS Certified Teak Plantations, Ghana	33.3	Robust economics, clear scalability and regulatory aspects, grounded in local context. Transformational for forestry plantation sector.	Fund once comments addressed
Guarantee Fund for Forestry Investments, Mexico	33.3	Innovative, strong livelihood benefits and transaction cost reduction potential. Transformational for scaling forestry finance.	Fund once comments addressed
Acacia and Palm Oil Plantations in Bandundu, DRC	31.7	Significant livelihood co-benefits. Executing agency may lack technical and human resources for adequate implementation.	Fund only if detailed Due Diligence proves positive
Climate-smart Rural Development, Burkina Faso	28.7	Innovative, integrated business serving local markets, with significant livelihood benefits. Commercial viability of jatropha to be checked.	Fund only if detailed Due Diligence proves positive
Teak on Modified Cerrado Lands, Brazil	28.0	Considerable climate change mitigation, leveraging additional financial resources. Technical sophistication may limit scalability.	Fund only if detailed Due Diligence proves positive
Acacia Plantations in Sud Kwamouth, DRC	23.7	Innovative reforestation with livelihood and community co-benefits. Project has failed to meet targets in past, complex donor relations.	Fund only if detailed Due Diligence proves positive
Forest Plantations, Africa Regional	22.6	Project needs to be reassessed once there is more detailed forestry information and concrete interest from financial intermediary institutions.	Do not fund in current form
Eucalyptus plantations in Maranhao & Tocantins, Brazil	20.3	No quantitative explanation of climate change mitigation and livelihood co-benefits. Unclear as to whether government can follow up project.	Do not fund in current form
LEAF Improved Cookstoves in Kinshasa, DRC	16.0	Business model not sustainable, demand not adequately presented. No cookstove track record in country, no analysis of competition.	Do not fund in current form

## Recommendations for CIF Proposal Template

If a new call for proposals of the FIP Private Sector Set-Aside is issued, the EG recommends that the following be included in future versions of the proposal template (Appendix 3):

1 - Summary of Financial statement of last 2 years: due to the complex socio-economic setting of most emerging country forestry projects, as well as the considerable environmental and financial uncertainties inherent to the forestry sector, it is key that the MDB engage solid partners in the execution of projects. Copies of recent financial statements are the most transparent way of assessing this aspect.

2 - Cash flow project for next 10 years, including break-even point and IRR: even if the cash flows presented are rough estimates, this is very useful to assess the magnitude of expected income streams and can therefore inform a analysis of market share, growth rate and other key parameters of the proposed business.

3 - Estimate of climate change mitigation potential at 10 years or other fixed time horizon: in order to be able to asses climate change mitigation potential and cost effectiveness of the projects in a comparable manner, the project proponents should be told the time period over which to calculate these parameters. In the current submissions, time frames of 10, 20 and 40 years were employed.



## Appendix 1

### MEMBERS OF THE FIP PRIVATE SECTOR SET ASIDE EXPERT GROUP

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## Appendix 2

### Group of Experts to Review Concepts submitted for funding from the FIP Set-Aside

#### Terms of Reference and Working Modalities

##### Background

In December 2012, the governing body of the FIP approved the *Procedures for Allocating Resources on a Competitive Basis to Promote Innovative Approaches to Engage the Private Sector in the FIP* (dated November 28, 2012), and agreed that USD 56 million in concessional funding should be set aside for allocation to programs and projects in accordance with the approved procedures.

The procedures provide that project and program concepts will be prepared by the MDBs and submitted to the CIF Administrative Unit for review by a group of four experts, to be facilitated by the CIF Administrative Unit.

The CIF Administrative Unit is to invite pilot countries and FIP contributor countries to submit names and resumes of experts with appropriate experience, including experience with the private sector, whom they would like to propose for inclusion in the group.

The CIF Administrative Unit, in collaboration with the MDB Committee, will then propose two experts from among those proposed by the pilot countries and two experts from among those proposed by the FIP contributor countries to be invited to participate in the review group.

The list of the four proposed experts will be submitted to the Sub-Committee for approval by mail.

These terms of reference describe the tasks to be undertaken by the review group once established by the FIP Sub-Committee.

##### Duties

5. Review the received concepts in accordance with the following criteria:
  - f) ability to advance FIP program objectives, principles and investment criteria, as contained in the FIP design document and investment criteria,
  - g) alignment with the objective of the country investment plans;
  - h) level of innovation proposed;
  - i) implementation feasibility within 9-18 months after funding approval by the FIP Sub-Committee; and
  - j) progress that has been achieved in implementing other projects under the endorsed investment plan.

6. Prepare a list of priority concepts recommended for the allocation of FIP resources available in the set aside (USD 56 million)<sup>2</sup>;
7. Include an additional list of concepts, for up to USD 28 million (50% of the level of funding available in the set aside), for consideration by the Sub-Committee ;
8. Prepare a report for consideration by the FIP Sub-Committee which includes the list of priority concepts, the additional list of concepts, a qualitative explanation for the recommendations and prioritization, and a description of the methodology used for scoring the submitted concepts.

### **Working Modalities**

Once the composition of the expert group is approved by the Sub-Committee, the CIF Administrative Unit will contract the experts and organize a first organizational meeting of the expert review group. The first meeting will be virtual and the group will be requested to:

- a) exchange views and respond to questions regarding the objectives and scope of the work;
- b) confirm arrangements for the expert working group to meet, in person, for three (3) days<sup>3</sup> to undertake the group analysis and review; and
- c) agree on the preparatory work, to be undertaken by the experts, MDBs or the CIF Administrative unit in advance of the September meeting.

Following the organizational meeting, the group will meet for three (3) days to carry out its technical analysis and review of proposals which have been submitted for financing from the FIP competitive set-aside, and agree on the recommended priority list of projects as well as the additional list.

The group should agree upon one of its members to serve as the lead author of its report. The report should be prepared and agreed within two weeks of the conclusion of the meeting.

The report of the group will be submitted to the CIF Administrative Unit for transmittal to the FIP Sub-Committee. The lead author of the group will be invited to present the report to the Sub-Committee and to respond to questions from Sub-Committee members. The report should be made publicly available at the same time as the report is submitted to the FIP Sub Committee for consideration.

### **Time Frame for Work**

1. Preparation for meeting of working group, including participation in the first organizational meeting and review of draft final report (virtual) (5 days)
2. In-person meeting of working group in Washington, DC, USA (September 3-5, 2013)(5 days, including travel)
3. Preparation of report by lead author (3 days) (Delivery date to the CIF Administrative Unit: September 25, 2013)

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<sup>2</sup> However, there should be a clear minimum set of criteria that must be met. If there are not a sufficient number of good quality concepts then the working group need not recommend a full allocation of the resources.

<sup>3</sup> Current working proposal is for the expert group to meet from September 3-5, 2013 in Washington, DC.

**Terms of Contract**

The consultants will provide services for approximately 13 days for the period August 15, 2013 – September 25, 2013. The 13 days include attending the in-person meeting of the working group in Washington, DC, USA.

**Reference Documents**

- FIP Design Document
- FIP Operational Guidelines and Financing Modalities
- Procedures for Allocating FIP Resources on a Competitive Basis from a Set Aside
- Timeline for Delivery of Proposals
- Common format to present proposals
- FIP Investment Plans (Brazil, Burkina Faso, Democratic Republic of Congo, Ghana, Indonesia, Lao PDR, Mexico)
- Status update on progress in the eight FIP pilot countries

## Appendix 3

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

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

- I. **Project/Program Description:** Provide a summary description of the project, objectives, and expected outcomes. Which sectors would be targeted?
  
- II. **Rationale:** Provide the rationale behind the idea in the national context, and from a local market perspective. Also, provide an explanation as to why it should receive the funding and how it would further advance the objectives of the endorsed investment plan.
  
- III. **Consistency with Investment Criteria:** Provide information how the proposed project meets the investment criteria for the Forest Investment Program, including:
  - Climate change mitigation potential.
  - Demonstration potential at scale.
  - Cost-effectiveness.
  - Implementation potential.
  - Integrating sustainable development (co-benefits).
  - Safeguards.
  
- IV. **Type of Private Sector Engagement:** Provide information whether this will be a solely private sector project, a PPP, or a public sector project financing private sector entities.
  
- V. **Innovation:** Explain how the project is innovative in terms of technology, business model, financial instruments or structure, and how the innovation will add value to the project.

**VI. Technology, Product, and/or Business Model:** Provide description of the 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.

**VII. Market:** Provide an overview of the market, product nature, supply and demand status, prices, and competition. 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. Also, provide an overview of current market barriers and how will they be reversed by the proposed project.

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

Source of Funding (by type of instrument, equity, debt, guarantee, grants, credit lines, etc.)	Amount (USD million equivalent)	Percentage (%)
Project developer		
MDBs		
FIP		
Local banks		
Other investors		
Bilaterals		
Others		
<b>TOTAL</b>		100

**IX. Expected Results and Indicators**

Results	Indicators
<i>Development Results(s):...</i>	

**X. Implementation Feasibility and Arrangements:** Provide information on the implementation feasibility of the proposed project and a timeline by when the project can start implementation on the ground and when the project will be completed. Also, to provide:

Expected FIP Sub-Committee approval date:

Expected MDB Approval date:

**XI. 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?

## ANNEX II: MDB COMMENTS ON THE EXPERT GROUP REPORT FOR FIP

### I. AFRICAN DEVELOPMENT BANK COMMENTS:

#### 4- Cashew Plantations with Farmers Associations, Burkina Faso

“**Weaknesses:** Apparent low capacity to leverage other funds, potentially resulting in low financial resilience of project.” (p9)

Regarding the “capacity to leverage other funds” we would like to note that after elaborating its 2012-2014 Strategic Plan, Wouol contacted technical and financial partners and the status/outcomes of these collaborations are explained below:

- a) BioVisio GmbH ([www.biovision.ch](http://www.biovision.ch)): This private company is interested in buying 1,000 t/year of cashew nuts, paid 100% at boarding. BioVisio GmbH also offers bank guarantees to Wouol and is committed to subsidise the building of a kindergarten for Wouol employees, in 2014 in Bounouna. In order to formalise this collaboration, a joint venture, Lanaya SA, will be created by December 2013.
- b) Triodos Bank ([www.triodosbank.com](http://www.triodosbank.com)): It lent 60% of the campaign costs (900,000 USD/year over the period 2010-2013). Triodosbank is willing to lend 500,000 € as investment capital to Wouol in 2014 (for the period 2014-2018), once they would have completed 4 years of collaboration.
- c) Shared Interest ([www.shared-interest.com](http://www.shared-interest.com)): Wouol is in touch with this micro-finance organisation. A loan of 250,000 € was discussed last year to finance a project aiming at promoting composting, but it was not finalised since Wouol signed a MoU with Oxfam and received a grant for the same project.
- d) Ökocrédit ([www.oikocredit.coop](http://www.oikocredit.coop)) and ICCO ([www.icco.nl](http://www.icco.nl)): These 2 micro-finance organisations are assessing a project proposed by Wouol and aiming at developing a canning unit (mango puree) and could lend respectively 100,000 € and 400,000 € in concessional loans for that.
- e) Ecobank: This bank received a guarantee line from the USAID and preliminary discussions are taking place to see whether Wouol could benefit from this line.
- f) Oxfam: It included Wouol in its 10-year programme aiming at supporting local livelihoods. In that context, two MoUs (2 years each, with grants of respectively 133,000 € and 157,000 €) were signed in September 2012, aiming at promoting composting, cereal processing, marketing of local agriculture products.
- g) The Centre for Enterprise Development (CDE; [www.cde.int](http://www.cde.int)): Under the auspices of the West African Economic and Monetary Union (WAEMU), it carries out a project aiming at promoting fruits production in the WAEMU area. Preliminary discussions are taking place right now (workshop planned

end of October in Bérégaougou) to support the setting up of an integrated quality management system, and to provide training in that respect. The CDE could finance (grant) 94,000 € in that respect (upon a total budget of 124,000 €).

- h) SNV: It supported Wouol in adopting innovative techniques to extract cashew nut shell liquid (thus reducing the GHG emissions due to nut shell burning). A second phase of collaboration is currently discussed, but objectives, amount of support, period of disbursement, etc. are not yet agreed upon.
- i) GIZ: there are preliminary discussions on the setting-up of a PPP (joining Wouol, GIZ and the Burkinabé Gvt). At this stage, objectives, amount of support, period of disbursement, etc. are not yet clear.

## **5 - Climate-smart Rural Development, Burkina Faso**

While a detailed due diligence is planned to be carried out, Agritech Faso has already provided convincing elements regarding the viability of their jatropha-centered business model:

- a) The internal rate of return of their project is estimated at 32% (based on cash flows calculated over 5 years and without considering the shea processing centers. The financial projections are available).
- b) Agritech Faso's experience over the last years has allowed the testing of the production and business models, providing useful and duly recorded lessons learnt and tends to confirm the robustness of the financial projections (the financial statements were provided).
- c) Agritech Faso has learnt from the traditional mistakes carried out by jatropha projects and addresses adequately the main challenges and key success factors to ensure commercial viability (AfDB has been given 2 documents that address lessons learnt to date).
- d) Agritech Faso will use high-yielding jatropha planting materials developed by its strategic partner JOIL (a joint venture between Temasek Life Science, Toyota Tsusho and Tata Chemical), that have been already commercially tested. JOIL Hybrid variety produces seeds from the 1<sup>st</sup> year of plantation (2T/Ha) and reaches 6 tons per Ha on Year 3 which is unprecedented, increasing significantly the commercial potential of jatropha projects and reducing significantly the time to break even. An independent report from Hardman & Co. (also available) has assessed the potential for Jatropha and different Research and Development initiatives including JOIL. It concludes on the great jatropha commercial potential and underlines the value of JOIL work :
  - i. *“The Jatropha related research & development initiatives being pursued by the crop science entities detailed in this report hold out the hope that Jatropha might surpass all other major crops, with the exception of oil palm, in \$ revenue yield per ha”*



- ii. *“The spread and the depth of JOil’s research into Jatropha is unique within the sector. The company has already demonstrated an ability to produce potentially exciting planting material using traditional breeding technique and it has also demonstrated competence in gene technology and advanced propagation technique. Supported by powerful industrial and research-based investors, JOil is well placed to drive the development and commercialization of Jatropha as a major new agricultural crop.”*

In the context of Burkina Faso where diesel is imported by sea and land transport, the production of renewable fuel is critical to limiting emissions linked to fuel transport as the fuel usage increases with development of the local economy.

## **6 - Acacia and Palm Oil Plantations in Bandundu, DRC**

**“Weaknesses:** From the proposal it is not possible to evaluate if the executing agency, GECOTRA SPRL, has the experience and team to successfully plant and manage 4000 hectares of plantations. It would appear that this is a company with very limited assets and technical capability. It is important that the BMD check the financial statements and annual report of GECOTRA carefully.” (p9)

Regarding the point on the “experience and team” of GECOTRA the following can be said:

- a) GECOTRA employs directly 39 agents in Kinshasa's headquarters and 242 agents in the field, where GECOTRA's activities generate thousands of jobs. Nearly a third of the local population of Masi-Manimba and Idiofa works with GECOTRA. The company is divided in two departments (Oil mills and Plantations – 3 sub-departments: Garage, Factories, Plantations and Transports – 5 sub-departments: Equipments, Logistics, Informatics, Human Resources, Accounts) plus the Service of financial affairs. They are under the responsibility of the Managing Director who reports directly to the Board of Directors.
- b) GECOTRA operates in palm plantations for more than a decade. It has a total of more than 4 500 ha of land registered under the “emphythéose” system (long-term lease). In 2001, the company started a plantation programme in Mokamo (640 ha) and Mangai (360 ha). These plantations (160 000 palm trees) are mature since 2009 and currently produce 150 tons of palm oil per month in average. Each plantation site has its own equipments: nursery, oil extraction and maintenance facilities, trucks and boats to evacuate the production, etc. Therefore, GECOTRA has a good technical track record to extend its current plantations.
- c) To be able to collect, transport and trade its oil palm, GECOTRA invested in the rehabilitation of rural roads. Besides, in parallel to the palm oil production activity, GECOTRA first core business activity since 1997 is fluvial transport to deliver goods, including agricultural products, inside or from the inner

country (from Kinshasa to Bumba and Kisangani). GECOTRA owns 4 pusher crafts and 12 barges, with a total transport capacity of 6 430 tons. The company also owns trucks and tanks for terrestrial transport. The company is thus well experienced in transport of agricultural commodities, which is crucial in the Congolese context.

As far as the point made on the company having very limited assets and technical capability, full due diligence will evaluate these points. At the moment and according to the financial statements provided what can be observed is that while in 2011 the net operating results were of 99 000 USD, in 2012 they represented 287 300 USD.

## **9 - FSC & VCS Certified Teak Plantations, Ghana**

**Weaknesses:** the proposal is not clear as to how the possible conflict with 'squatter' farmers will be resolved in a locally and politically acceptable manner. Local livelihood benefits needed to be analyzed and more detailed explanation given. (p10)

Regarding the “possible conflict with ‘squatter’ farmers”, the following can be said:

- a) Officially, no farming is allowed in Forest Reserves (FR) in Ghana. But, in most of degraded FR, illegal farmers are present. Willing to restore the forest estate, Form Ghana started in 2007 to collaborate with farmers on intercropping systems based on two years contracts. So far, this has been successful because farmers are given the opportunity to farm for free for two years on the same land, with possibility either to continue in new planted areas or to have an opportunity of employment. Experience so far is that farmers mainly become employees and some of them phase out.
- b) As part of the FSC and VCS requirements, in-depth stakeholders' consultations and Social and Economic Impact Assessment (SEIA) have been implemented and demonstrated that there are no substantial farming pressure in Tain II in particular, and all areas of Form Ghana in general. The granting of these 2 standards to Form Ghana's plantations proves that. Key is good management and continuous follow-up.
- c) It is worth to note one particular aspect of the Corporate and Social Responsibility (CSR) of Form Ghana, in the chapter “Code of conduct”: Form Ghana is “committed to support cultural value, respect local customs and maintain good relation with the local chiefdoms”. The chieftaincy is well structured in Ghana in general and in the Akan area in particular: having developed the trust with the local chiefdoms, Form Ghana aims at preventing and resolving any problem at local level, in a smoothly manner.

As far as the point made on “local livelihood benefits”, the following can be said:

- a) Out-growers: Form Ghana did a rough and conservative margin calculation for 1 acre (0,4 ha) of teak plantation (discount rate and inflation rate not taken into account): costs = 1 400 €/acre [establishment (incl. seedlings) = 400 €/acre + costs of maintenance = 60 €/acre/year x 20 years = 1 200 €/acre]; revenue = 10 000 €/acre [sale of 80 m<sup>3</sup> x 125 €/m<sup>3</sup>]. Net revenue over 20 years = 8 600 €/acre, i.e. 430 €/acre/year. If 50% of the final revenue is paid up-front to the

outgrower, the net revenue is around 215 €/acre/year, which is quite important, if compared to the following figures: net revenue from corn = 100-150 €/acre/year; annual average income in the area = 600 €/year; 29% of local households having a total asset below 96 € (from Asubima SEIA).

- b) Employee: As part of its CSR, Form Ghana is committed to “employ people from the fringing communities” (see section “Employment” – CSR), to pay “at least the national minimum wage [...] to contribute to the Social Security National Insurance Trust (SSNIT) [...] to contribute to health insurance and to reimburse medical expenses upon request [...] to grant loan upon request” (see sections “Payment” and “Health and Safety” – CSR)
- c) Local communities: As agreed in the Benefit-Sharing Agreement signed between the Forestry Commission, Form Ghana, and the local Chieftaincy (“Stool”), the latter will receive 6% of the total revenue (upon moment of thinning), the local communities will receive 2% of the total revenue (idem), and the land owners will receive 4 \$/ha/year.

## II. IFC’S COMMENTS:

### **3 - Commercial Reforestation of Modified Lands in Cerrado, Brazil**

**EG’s recommendation:** *Fund the project only if detailed Due Diligence proves positive.*

**IFC response:** As stated in the Project concept note, the Company has already been through IFC’s due diligence which recommended for IFC to proceed with the investment. IFC dedicated over eight months into its appraisal which involved two experienced plantation foresters, three financial experts in addition to the IFC’s core investment team, and required several months of company preparation. Some 500 documents were reviewed and many interviews with stakeholders were held. The Company’s operations were assessed against IFC’s Performance Standards (PS) and found to be largely compliant. Additionally, the Company will operate within the confines of the IFC’s General Environmental, Health, and Safety (EHS) Guidelines, EHS Guideline for Plantation Crop Production, EHS Guideline for Forest Harvesting Operations, and the EHS Guideline for Forest Harvesting Operations. The Project implementation will also occur in accordance with Brazilian legislation and in particular the forest code and labor laws.

**EG’s assessment:** *The cost per Ton/CO<sub>2</sub>e is high*

**IFC’s clarifications:** The implied direct GHG reductions per FIP financing were calculated for the period of the estimated IFC-FIP investment (10 years). However, the lifecycle of the Project is 30 years and therefore its total net positive change in GHG sequestration is 2.4M tCO<sub>2</sub>e. As a result, based on FIP investment of US\$15 million, the implied GHG reduction per FIP financing taking into consideration the entire lifecycle of the Project (30 years) will be roughly US\$6/tCO<sub>2</sub>e.

Additionally, GHG reduction presented was calculated using the Carbon Assessment Tool developed by the World Bank, and is a minimum estimate for the new plantations only. The

estimate did not include long-term sequestration in teaks long lifecycle as well as it did not include reduced emissions associated with avoided deforestation and forest degradation from natural forest adjacent to areas adjacent to targeted plantations. An important component of the Project is protect and enhance areas of permanent protection and legal reserve (APP and RL), which amount to approximately 40% of the total land owned by the Company and designated to the Project.

**EG's assessment:** *High level of technical sophistication and long timeframe may reduce local livelihoods and regional scalability of project.*

**IFC's clarifications:** IFC's assessment is that FIP funds are crucial to address the needs of cultivating teak - long term investment horizon and large upfront investments. The role of the FIP is essential to enable the Project to demonstrate its technology and sustainable forest management practice at scale that promotes biodiversity and ecosystem conservation, results in carbon sequestration, and creates jobs.

As stated in the Project concept note, the Company has already proven the technology through the critical first third of the planting cycle (seven years), planting 6,500 ha with teak, and it is managed by a strong team which is comprised of forest experts with over 30 year of experience. Genetic improvement is core to the transformation that the Project is trying to achieve, but it is too expensive for individuals and small companies to implement. The Company already has the genetic and silvicultural models that were expensive to create but are easy to replicate, and that will generate a significant climate change benefit at scale which is very difficult to achieve by smallholder-type of approaches. Additionally, the area where the Project will be implemented has been largely cleared for mechanized row crops and therefore there is a seasonal surplus of farm equipment which can be easily repositioned to work on teak to help make replication occur, but only if there is a proven working model. Finally, it is important to reiterate that the Project will generate jobs throughout the plantation cycle hiring local employees (300 new direct jobs created over the plantation cycle).

### **III. INTER-AMERICAN DEVELOPMENT BANK COMMENTS:**

#### **10 - Guarantee Fund for Forestry Investments, Mexico**

**Strengths:** A Fund Guarantee for Forestry would be innovative in Mexico (the agriculture sector is already served by this type of instrument), significantly leveraging other funds and aligning with IP Financiera Rural Project. Strong livelihood improvement and transaction cost reduction potential by working through 'ejidos', cooperatives and other associative structures.

**Weaknesses:** *The Project is not explicit about how it will address unmet community forestry credit needs, as opposed to well served agricultural credit needs. A more detailed explanation about how the private credit investments supported by the Guarantee Fund are monitored and evaluated, in order to ensure coherence with the country IP, is needed.*

### **Comments by IDB:**

The private financial sector has a critical role as an intermediary of financial capital for supporting sustainable productive activities of forestry communities. However, the participation of the private sector has been low as the forestry sector is considered a high-risk area for financial institutions, especially for long-term loans.

The guarantee fund will be made available particularly to private financial institutions interested in financing projects that are aligned to Mexico's FIP IP. By offering the guarantee to these financial institutions the risks associated with community forestry credits will be decreased. Hence, the fund will allow financial institutions to increase their credit offer for community forestry needs. During project preparation a more detailed assessment of such needs will be conducted, including: characteristics of required loans (typical size, tenor, security, etc), typical credit profile of potential borrowers, parameters of required guarantee products, relevant financial institutions and community forestry projects and specific demand for the guarantee product, among other. This will be critical to –among other- properly design the product, define the marketing strategy, and further define the unmet credit need and the impact the program will have for community forestry projects.

The guarantee fund administration will gather the data required to monitor and evaluate the credit investments according the key themes as agreed for the FIP IPs. These include: GHG emission reductions / enhancement of carbon stocks; livelihoods co-benefits; biodiversity and other environmental services; governance; tenure, rights and access; and capacity development.

The detailed procedures and required arrangements will be defined during the design phase of the project.

### **1- Macauba Palm Oil in Silvicultural System, Brazil**

**Evaluators' feedback:** *“Weaknesses: Unproven concept: therefore reasonable degree of operational failure (productivity per hectare) and uncertainty of market acceptance of macauba oil. The low involvement of other partners/funding weakens scalability potential. Should increase effort in broadening the partner/funding base of the Project, as well as provide more information of break-even price point and market niche/s of macauba oil.”*

We agree with the evaluators that there are some risks, which we think are inherent with most pilot projects, especially those with new and innovative approaches. This is one of the reasons why we approached IDB for funding, as IDB can help to bridge this pioneer gap. Furthermore, we have taken broad steps to reduce the risks as much as possible. In regard to the specific points mentioned, please find our detailed answers below.

#### **Risk of operational failure (yields per hectare):**

Yields per hectare:

1. Fruit yields per Macauba tree can be considered as well studied and documented

- a) Several universities have measured fruit yields over a longer period of time
- b) Results:

Leuphana University in 2011:	70kg/palm
Novaes in 1952:	82kg/palm
Wandeck & Justo in 1988:	95kg/palm

Roscoe in 2007: 76kg/palm  
CETEC in 1983: 65kg/ palm  
Pimentel et al. in 2009: 45-50kg/palm  
Some Macauba yield studies comprise several consecutive years

- c) These studies analyzed wild growing Macauba, i.e. those whose productivity had not been enhanced through fertilizer use or breeding.
- d) The business plan has been calculated with 35kg/palm – a very conservative number compared to scientific studies as cited above.

2. The optimal number of trees per hectare has been analyzed

- a) Fruit yields per hectare could decrease if palms are too close
- b) Therefore, the Leuphana University also analyzed whether distance between trees has an impact on fruit yields
- c) This was possible because large wild stands of Macauba exist and can be observed. On existing pastures some of wild trees are very close to each other while others are very far (see picture)



- d) Similar analysis have been conducted by Embrapa and Epamig
- e) It was found that the optimal density for a Macauba silvicultural system was 300 palms/ha

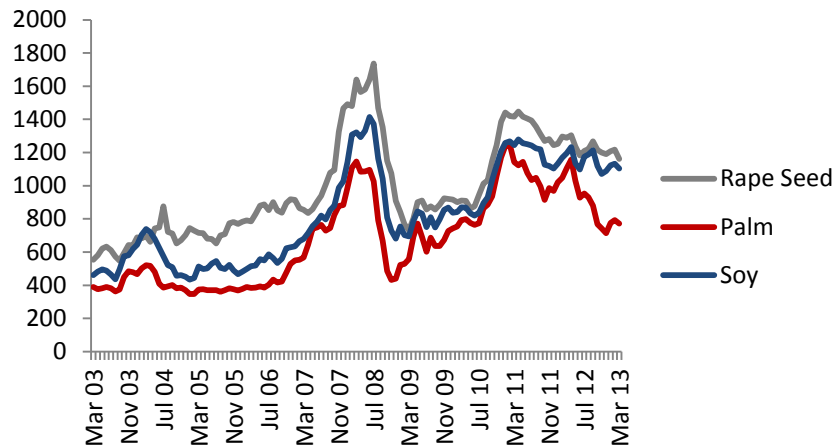
Consequently, we can be sure about productivity per hectare. Furthermore, the estimated overall productivity per hectare used in our business plan is very conservative.

#### **Risk of market acceptance of Macauba Oil:**

To be conservative, the market positioning of Macauba pulp oil as well as prices assumed in our business plan are those of palm oil, traditionally the cheapest plant oil on the world

market (see graph below). Even when import taxes on palm oil are included, palm oil prices are below soybean oil prices.

### World plant oil prices 2003-2013



Source: index mundi

Macauba pulp oil is priced as palm oil according to our business plan.

The oil is suitable for industrial applications and animal fodder without prior treatment according to Polyquim (<http://www.polyquim.com.br>) and Ciola Comércio e Indústria de Óleos Aracariguama ([www.agrostar.com.br](http://www.agrostar.com.br)).

With prior treatment it can be used for biodiesel or oleo chemical industries. According to Brazilian Oleochemical ([www.bro.ind.br](http://www.bro.ind.br)), a company that has worked with our Macauba Oil samples, treatment cost is approximately R\$300/ton (USD 130/t). Even with these treatment costs, Macauba oil is still cheaper than soybean oil, the main feedstock for biodiesel production in Brazil. Over the past five years average soybean oil prices amounted to USD1010/t while average palm oil prices were at USD 850/t. Consequently, Macauba oil plus processing costs will still be below soybean oil prices ( $850+130 = 980$ ) (Index mundi, 2013).

Several academic studies confirm the suitability and economic viability of Macauba oil for biodiesel production including pretreatment costs:

- a) Navarro Díaz et al. (2013): Macauba Oil as an Alternative Feedstock For Biodiesel: Characterization and Conversion to Biodiesel by the Supercritical Method, Iberoamerican Conference on Supercritical Fluids, Cartagena de Indias (Colombia), 2013
- b) Pereira Freitas et al. (2008) Potential for biodiesel synthesis from macaúba (*Acrocomia aculeata*) pulp oil with a high content of free fatty acids, The 30th Symposium on Biotechnology for Fuels and Chemicals (May 4 - 7, 2008)

- c) Aparecida Ferrari and Adelino de Azevedo Filho (2012): Macauba as Promising Substrate for Crude Oil and Biodiesel Production, Journal of Agricultural Science and Technology B 2 (2012) 1119-1126

Accordingly, we are confident about the market acceptance of Macauba oil.

Furthermore, as stated on September 19<sup>th</sup>, 2013:

For the business model, we assumed average palm oil prices of the past five years. [...] We think that this price is quite conservative, for the following reasons:

- a) Palm oil prices quoted by regional market researcher such as Aboissa are significantly above this level
- b) Macauba oil contains much more oleic acids than palm oil, making it more valuable
- c) There are import tariffs on palm oil (10%)
- d) Macauba oil could be marketed under the social fuel seal in the biodiesel market.

Consequently, regarding our business plan, we are even seeing upside potential in terms of the realized prices for Macauba oil.

Regarding other products made from Macauba fruits, we are happy to report that two weeks ago the buyer of our Brazilian partner's Macauba granulate product stated that he was willing to buy even larger quantities of Macauba granulate, to a point that this demand exceeds our partner's current production capacities. Higher incomes generated through Macauba endocarp can overcompensate lower incomes from oil sales.

#### **Risk of low involvement of other partners/funding:**

There is a wide-spread interest in Macauba silvopastoral plantations. Already now, several institutions in Brazil are involved in the development of Macauba plantations. In the context of the first Macauba Conference, 5-7<sup>th</sup> November 2013, the following partners and others will discuss how to support the development of the Macauba industry:

- a) IBAMA MMA (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis part of the Ministério do Meio Ambiente)
- b) SEAPA (Secretaria da Agricultura, Pecuaria e Agronegocio)
- c) EMBRAPA (Empresa Brasileira de Pesquisa Agropecuária)
- d) EPAMIG (Empresa de Pesquisa Agropecuária de Minas Gerais)
- e) PETROBRÁS (Petróleo Brasileiro S.A.)



- f) Votorantim Cimentos
- g) and universities such as Universidade Federal de Viçosa, Escola Superior de Agricultura, Leuphana University, Lüneburg, University of Hohenheim, Germany

One objective of the conference is to develop support schemes on how to foster the Macauba industry and its scaling-up process.

Several of the mentioned actors have already invested or pledged significant amounts of financial resources into developing the Macauba industry.

- a) PETROBRAS has pledged 5m R\$ to Macauba research at the University of Viçosa
- b) Votorantim Cimentos has established test plots of Macauba to evaluate large scale implementation
- c) REPSOL, together with ENTABAN, has already started a trial several years ago

The Brazilian government, both on state and federal level, is also seeing the great potential of Macauba, shown e.g. by the Pro-Macauba Law which is supposed to lend financial and technical support to smallholder farmers.

Furthermore, the setting up of companies such as Agrotech (Brazil) and Acrocomia Solutions (Germany) testifies to the assumption that the Macauba industry offers a great potential.

That being said, from our intense research and talks we can say that funding from a development focused institution such as the IDB is required to bridge the pioneer gap. Once the first commercial pilot is established, private funding is highly likely to be available. In addition to state support, private sector investors are likely to invest in the industry, once a pilot project is established. The following commercial investors have stated to us their interest in financing a scale-up of the proposed project once a commercial pilot is established (**however not the pilot phase**):

- a) LGT Venture Philanthropy
- b) Forest Finance
- c) Vox Capital (Brazil)
- d) Alterra Impact Finance
- e) World Markets AG
- f) Responsibility
- g) EcoEnterprises Fund

### More information on break-even price point:

We analyzed the sensitivity of the financial model in respect of changes of sales prices and yield achieved per hectare. The results are shown in the tables below:

<b>Variation Sales Price</b>	<b>Minus</b>					<b>Plus</b>			
<b>Sales price variation</b>	<b>Base</b>	-10%	-20%	-30%	-40%	10%	20%	30%	40%
<b>R\$ / kg</b>	0,6	0,54	0,48	0,42	0,36	0,66	0,72	0,78	0,84
<b>Break even in year (EBITDA)</b>	7	7	8	8	8	7	7	7	7
<b>Cumulated Cash need until break even</b>		2%	4%	6%	10%	-1%	-2%	-2%	-3%

The analysis shows that the point in time when the Macauba project will break even in terms of reaching a positive EBITDA does not react very strongly even to significant changes in the sales price of Macauba fruit per kg. Even a 40% lower sales price will allow the project to create positive EBITDA in year 8. Total Cash Need will rise by 10% in this case. On the other side, a more positive development will also not significantly change the time the project breaks even.

In terms of variation of expected yield per tree, the analysis gets to a similar result (see table below)

<b>Variation Yield</b>	<b>Minus</b>					<b>Plus</b>			
<b>Yield variation</b>	<b>Base</b>	-10%	-20%	-30%	-40%	10%	20%	30%	40%
<b>kg / Tree</b>	35	31,5	28	24,5	21	38,5	42	45,5	49
<b>Break even in year (EBITDA)</b>		7	7	7	8	7	7	7	7

## IV. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT COMMENTS:

Overall, the report is clearly structured and well prepared. We agree with the selection of criteria and scoring. The report can go out as is from IBRD's point of view.

The project proposal on Acacia Plantations in Sud Kwamouth, DRC is currently under review with the objective to address the issues raised by the Expert Group. We will get back to you as soon as we have clarified those issues.

ANNEX III: Procedures for allocating FIP resources on a competitive basis from a set aside

# CLIMATE INVESTMENT FUNDS

November 28, 2012

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**PROCEDURES FOR ALLOCATING FIP RESOURCES  
ON A COMPETITIVE BASIS FROM A SET ASIDE**

1. The Sub-Committee agrees that USD56 million in concessional funds should be set aside for allocation to programs and projects, selected on a competitive basis, that promote innovative approaches to engage the private sector in the pilot countries. Such programs and projects should be aligned with the endorsed investment plans and should serve to encourage interest from a broad range of private sector actors.
2. Resources from the set aside may be provided to either:
  - a) private sector clients working through MDB private sector arms, or
  - b) public sector entities working through the MDB public sector arms which would in turn channel all funds to private sector recipients in pilot countries.
3. No one project or program funded from the reserve should receive more than USD 15 million nor less than USD 3 million in FIP funding.
4. The Sub-Committee invites the MDBs and pilot countries to initiate the development of concept proposals for programs and projects to engage the private sector in support of the objectives of the relevant country investment plans. The MDBs will share and discuss with the pilot country focal point any program or project concepts which they consider appropriate and feasible to advance private sector engagement in support of the objectives of the country's investment plan.
5. Concept proposals will be submitted to the CIF Administrative Unit by the MDBs and reviewed by a committee of experts (see paragraph 6 below) for prioritization based primarily on ability to advance FIP program objectives, principles and investment criteria, as contained in the FIP design document and investment criteria, and with the following additional criteria:
  - a) alignment with the objective of the country investment plans;
  - b) level of innovation proposed;
  - c) implementation feasibility within 9-18 months after funding approval by the FIP Sub-Committee; and
  - d) progress that has been achieved in implementing other projects under the endorsed investment plan.
6. The Sub-Committee agrees that project and program concepts will be prepared by the MDBs and submitted to the CIF Administrative Unit for review by a group of four experts and one representative from the CIF Administrative Unit (see paragraph 7 below). The review group will review the concepts in accordance with the criteria listed in the paragraph 5 above and will prepare a list of priority concepts that it recommends be allocated the FIP resources available in the set aside. In recommending a priority list of concepts to be allocated the available FIP funding, the review group should also include an additional list of concepts, for up to an additional 50% of the level of funding available in the set aside, for consideration by the Sub-

Committee in making its decision on allocating the resources. In proposing the list of concepts, the review group should include a qualitative explanation for its recommendations and prioritization.

7. In order to establish the review group, the CIF Administrative Unit should invite pilot countries and FIP contributor countries to submit names and resumes of experts with appropriate experience, including experience with the private sector, whom they would like to propose for inclusion in the group. The CIF Administrative Unit, in collaboration with the MDB Committee, will propose two experts from among those proposed by the pilot countries and two experts from among those proposed by the FIP contributor countries to be invited to participate in the review group. The list of the four proposed experts will be submitted to the Sub-Committee for approval by mail.

8. The CIF Administrative Unit will submit the report of the review group to the Sub-Committee for consideration and a decision on the allocation of the resources in the set aside at its meeting in November 2013. Each project or program identified in the priority list and the list of additional concepts presented in the report would need a no-objection letter from the FIP country focal point.

9. The CIF Administrative Unit and the MDB Committee are invited to prepare a timeline for the completion of the steps described in this decision so as to allow the submission of the report of the review group to the Sub-Committee four weeks in advance of its meeting in November 2013.

10. Once a concept has been endorsed, the further development of the project or program will follow the procedures agreed for other activities financed under the endorsed investment plans.

11. In order to facilitate the preparation and consideration of program and project concepts, the CIF Administrative Unit and the MDBs will agree on a common format for presenting such concepts.

12. The Sub-Committee requests that information on the set aside and the agreed procedures, the common format for presenting concepts, the timeline for the completion of steps, and links to pilot country investment plans and other relevant information be made available through the following channels:

- a) the CIF website and, as appropriate, the websites of the MDBs;
- b) pilot country focal points for dissemination to national constituencies and networks; and
- c) other relevant channels that may be agreed upon by the MDBs and the pilot country focal points.

13. The CIF Administrative Unit, the MDBs and the pilot countries are requested to collect lessons and reflections about the effectiveness and value-added of the set aside and the competitive selection process with a view to drawing lessons for the future.

14. These procedures are open for review and/or revision should additional funding become available.