

CLIMATE INVESTMENT FUNDS

FIP/SC.19/3
December 4, 2017

Meeting of the FIP Sub-Committee
Washington D.C.
Wednesday, December 13-Thursday, December 14, 2017

Agenda 3

FIP OPERATIONAL AND RESULTS REPORT (SUMMARY)

PROPOSED DECISION

The FIP Sub-Committee reviewed the document, FIP/SC.19/3, *FIP Operational and Results Report*, and welcomes the progress that has been made in advancing the work of the FIP in the pilot countries.

The Sub-Committee appreciates the analysis conducted by the CIF Administrative Unit, in collaboration with the MDBs, on achievement of results, resource availability, pipeline review, and portfolio updates.

1 Introduction

1. The Operations and Results Report (ORR) of the Forest Investment Program (FIP), identifies key strategic issues, highlights key decisions taken inter-sessionally by the FIP Sub-Committee, and provides an update on the status of FIP-funded programs and projects under the endorsed investment plans and related activities. This report also includes projections on future approvals and provides an update on the results achieved by the FIP pilot countries.
2. This report provides an update of the entire FIP portfolio for the period January 1 to June 30, 2017 (with additional updates to September 30, 2017 on Resource Availability as a measure to facilitate discussion and decision-making during the December 2017 FIP Sub-Committee meeting), as well as results of projects under implementation for the period January 1 to December 31, 2016.

2 Strategic issues

2.1 New financing modalities for the FIP

3. The final report assessing alternative financing models for the FIP will be shared during the December Sub-Committee meeting. This work, which included consultations with FIP pilot country representatives during the FIP Pilot Country Meeting, and inputs from a range of fund managers, investment advisors, foundation representatives, and investors involved in natural infrastructure and natural asset investments.

2.2 Resource availability

4. As has been identified in previous SARs, the FIP continues to have anticipated programming in excess of the funds available. A strengthening in the value of GBP in the reporting period has seen the FIP resource envelope increase to USD 756.2 million as of September 30, 2017, an increase of USD 17 million (approximately 2.2 per cent) from the previous value of USD 739.2 million reported at the June 2017 Sub-Committee meeting.
5. Following consultations between the CIF Administration Unit and Trustee, two new line items have been added to the SCF program-level calculations of available resources:
 - A. Administrative Expense Reserve: At the CIF's inception, investment income was anticipated to exceed administrative expenses. However, due to low interest rates and declining trust fund balances investment income has been and will continue to be insufficient to cover the estimated SCF administrative expenses.
 - (i) The June 2017 Trustee Report incorporated three years of estimated administrative expenses of the CIF AU, MDBs and Trustee but this was reported at the SCF Trust Fund level and not reflected in the available resources of the three SCF programs.

- (ii) The CIF AU and Trustee deem it prudent now to set aside the equivalent of a five-year administrative expenses reserve (net of forecasted investment income) to meet the need for resources for the operations of the CIF AU, MDBs and Trustee as they continue to ensure the implementation of the SCF programs into the future. The impact of this reserve is reflected in the current Trustee report.
 - (iii) In accordance with the SCF Contribution Agreements, administrative expenses must be allocated to all SCF Programs on a pro rata basis based on the fund balance in each SCF Program. These expenses must be paid with grant resources. Given the existing funding situation in the SCF programs, by FY22 the FIP is expected to be the only program with a fund balance. The pro-rata allocation requirement will therefore impact the FIP disproportionately going forward, as it will be required to fund all SCF administrative expenses for as long as it remains the only program with an outstanding fund balance.
 - (iv) The FIP has been apportioned USD 40.8 million of a total USD 53.1 million of the SCF administrative expenses for FY19-23.
- B. Country Programming Reserve: an estimated allocation, for the approved FY18 and projected FY19-23 Country Programming budget amounts, has been added to the Trustee report. The FIP has reserved USD 2.3 million for country programming for FY18-23.

- 6. This results in FIP having an unrestricted fund balance after reserves of USD 204.1 million and anticipated commitments of USD 291.7 million. Even with consideration of potential future resources of USD 36.4 million, the current resource envelope will not be sufficient to service the entire FIP pipeline.
- 7. The FIP therefore faces a potential available resources deficit of USD 51.2 million consisting of a potential future surplus of USD 5.0 million in capital and a potential future deficit of USD 56.2 million grant.

2.3 Pipeline management update

- 8. Following the approved Pipeline Management Policy for the FIP, approved in January 2017, all projects pending approval for more than 2 years were to be either submitted for approval or cancelled by November 2017.

2.4 DGM update

- 9. Over half of the USD 80 million DGM indicative envelope (USD 45.5 million) has been approved for the global component and country projects in Brazil, Burkina Faso, Democratic Republic of Congo (DRC), Peru, Indonesia, Ghana, and Mexico.
- 10. A total of 66 sub-projects receiving funding through DGM have been selected in three countries for a collective value of USD 2.7 million. Other activities supported by the DGM include validation visits for sub-project proposals, training for grassroots organizations, and title registration.

11. The DGM is producing some early project results. By December 2016, DGM Peru already achieved legal recognition for 59 native communities (final target is 147), which should benefit 5,000 families. Many of the land titling projects have completed their fieldwork.

2.5 Stocktaking review of the FIP M&R Toolkit

12. The CIF Administrative Unit has started to implement the following recommendations of the M&R Stocktaking Review Report, including collecting results data from MDBs and updating the FIP M&R Toolkit.

2.6 Knowledge management highlights

13. As part of the CIF Evaluation and Learning (E&L) Initiative, the FIP is involved in the following initiatives:

- An Evaluation and Learning Partnership on Financing Forest-Related Enterprises with the delivery consortium IIED/LTS.
- A Learning Partnership on the DGM with delivery partner Itad.
- A study on *Pathways for Designing a Mechanism to Incentivize Deforestation-Free Landscapes and Value Chains for Green Growth* with the World Bank FIP team, WB Program on Forests (PROFOR), and FAO.
- A report on *FIP - Lessons Learned* from early implementation of FIP projects with the World Bank FIP team.

3 Status of the FIP

14. The following table provides information of the status of the FIP portfolio, which has an endorsed indicative FIP funding of USD 627 million.

| | Indicative pipeline allocation | | | | Approved funding | | Disbursement (cumulative) |
|---------------------------------|--------------------------------|--------------|-----------|-------------|------------------|--------------|---------------------------|
| | TOTAL | IP | DGM | PSSA | Sub-Committee | MDB | |
| FIP amount (USD million) | 627 | 526.7 | 80 | 20.3 | 410.8 | 403.8 | 121.1 |
| Number of projects | 54 | 34 | 16 | 4 | 31 | 29 | 22 |

15. Based on the expected approval dates received from MDBs, the approval rates will increase considerably in the next fiscal year to reach 85 percent of the funds approved by the FIP Sub-Committee and 69 percent approved by the MDBs.

16. During this reporting period, the FIP Sub-Committee endorsed investment plans of Guatemala (USD 24 million¹), Cambodia, and Uganda (both unfunded), and approved projects for a total of USD 30 million. In addition, five projects were approved by their respective MDB boards for a total of USD 40 million.

¹ And an additional USD 4.5 million for the national DGM project.

17. The FIP portfolio’s maturation is reflected in the continued increase in the disbursement ratio, which has doubled since the previous fiscal year to reach 30 percent of the MDB-approved funding (USD 121.1 million)

4 Results

18. The information presented in this report covers 18 FIP projects from six countries (Brazil, Burkina Faso, DRC, Ghana, Lao People’s Democratic Republic (Lao PDR), and Mexico), including four DGM projects (Brazil, Burkina Faso, Peru, and the DGM global component), accounting for USD 258.9 million.

19. The overarching expected results for projects currently under implementation include an estimated reduction or avoidance of greenhouse gasses (GHG) emission of 11.71 MtCO₂e, more than one million people receiving livelihoods co-benefits, and a coverage area of 31 million hectares.

| | Targets | 2016 results | 2016 progress towards target | Cumulative results | Cumulative progress towards target |
|---|------------|--------------|------------------------------|--------------------|------------------------------------|
| Theme 1.1: GHG emission reductions or avoidance/enhancement of carbon stock (MtCO ₂ e) | 11.71 | Not reported | Not reported | Not reported | Not reported |
| Theme 1.1: Area covered (ha) | 31,072,260 | 3,494,554 | 11.3% | 3,494,554 | 11.3% |
| Theme 1.2: Livelihood co-benefits | 1,018,092 | 414,132 | 40.7% | 563,396 | 55.3% |

20. FIP countries are making good progress toward protecting biodiversity by supporting efforts to reduce forest loss and enhance knowledge about species diversity through forest and botanical inventories, such as in Brazil.

21. Progress on forest governance focuses on strengthening decision-making processes, ensuring participation of all stakeholders, and enhancing forest law enforcement. A good example is the FIP’s support to Lao PDR’s Department of Forest Inspection for law enforcement to prevent illegal logging. In addition, steady progress in improving the enabling environment for forestry partnerships was achieved as part of the Lao Smallholder Forestry project. These include initiating policy and technical collaboration with Lao Department of Forestry’s Plantation Investment and Promotion Division and formulating revisions to plantation regulations. An important milestone was also the first ever national workshop in Lao PDR on land security and concession licensing in the plantation sector.

22. The FIP portfolio has continued to make progress on tenure issues by supporting countries on defining rights to use, control, and transfer land and forest resources. Ghana, for

example, has continued to make progress on its innovative tree tenure system promoted through climate-smart cocoa.

23. Capacity development is the most prevalent area where FIP projects reported progress, including trainings and provision of equipment. All FIP countries made progress increasing their capacity on sustainable forest or agriculture management solutions.