

CLIMATE INVESTMENT FUNDS

FIP/SC.6/7
June 3, 2011

Meeting of the FIP Sub- Committee
Cape Town, South Africa
June 29 and 30, 2011

Agenda Item 8

PROPOSAL FOR THE ALLOCATION OF THE FUNDING RESERVE

Proposed Sub-Committee Decision

The Sub Committee reviewed document FIP/SC.6/8, *Proposal for the Allocation of the Funding Reserve*, and approves the criteria for allocating resources from the reserve. The Sub-Committee agrees to reconsider the criteria at its meeting in November 2012 in light of experience to be gained in developing FIP investment plans and the early implementation of projects and programs. The Sub-Committee further agrees that during the period between the endorsement of its investment plan and allocation of the reserve, a pilot country may draw upon a portion of its FIP allocation to prepare project proposals for concepts included in its investment plan, with a view to seeking financing for the project/program either through the reserve or from other development partners.

INTRODUCTION

1. During its meeting in November 2010, the FIP Sub-Committee adopted the following decision concerning the principles for allocating resources to FIP pilot countries:
 - a. A reserve of \$150million in grant resources should be set aside from the current level of pledges.
 - b. All allocation amounts are indicative for planning purposes. Approval of funding will be on the basis of high quality investment strategies and associated project and program proposals.
 - c. The following four indicators presented in document FIP/SC.5/5 should be used to determine the funding range for each pilot country:
 - i. mitigation potential (weight factor 2)
 - ii. biodiversity potential
 - iii. absorptive capacity
 - iv. development benefits potential.
 - d. Four levels of funding ranges should be established. The following is the agreed level of funding for the eight pilot countries, taking into account the current pledges to the FIP:

i. Brazil and Indonesia:	USD50-70million
ii. Democratic Republic of Congo and Mexico:	USD40-60million
iii. Ghana and Peru:	USD30-50million
iv. Burkina Faso and Lao PDR.	USD20-30million
 - e. Countries may program beyond the funding range in their investment strategies, with a view to promoting contributions from other development partners as well as to access further allocations under the reserve amount.
 - f. The allocation of the reserve is to be decided by the FIP Sub-Committee after all investment strategies have been endorsed and agreement reached on the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities.
 - g. The CIF Administrative Unit, in consultation with the MDB Committee, is requested to prepare, for consideration at the next FIP Sub-Committee meeting, criteria for allocating the reserve amount.
2. This paper presents proposed criteria for determining the allocation of the reserve.

USE OF RESOURCES FROM THE RESERVE

3. The decision by the Sub-Committee provides that the reserve may be used to finance investment activities in the pilot countries in addition to those that may be financed from the initial funding allocation as well activities of indigenous peoples and local communities to be funded through the dedicated grant mechanism.

4. In addition, it is proposed that the reserve be drawn upon to finance the costs of implementation support and supervision services for projects and programs to be developed and implemented consistent with the endorsed investment plans.

Dedicated Grant Mechanism for Indigenous Peoples and Local Communities

5. Consistent with the approved *Terms of Reference for Developing the Dedicated Grant Mechanism*, which were approved by the FIP Sub-Committee in March 2010, indigenous peoples and local communities are preparing a proposal for the design of the grant mechanism. The design document is expected to include a request for an allocation of resources to be disbursed through the grant mechanism. The proposal for the grant mechanism, once it is final, will be submitted to the Sub-Committee for approval of the design and the funding of the mechanism.

Costs for project implementation support and supervision services

6. During its meeting in November 2010, the SCF Trust Fund Committee “agreed that funding of MDB costs for project implementation support and supervision services should be identified within each investment strategy or plan as a separate component of the overall funding request for such strategy or plan. The Committee agreed that the costs of the MDBs should not be perceived as diminishing the allocations agreed for pilot countries”.

7. It is proposed that the costs for project implementation support and supervision services be financed from the reserve, so as not to diminish the allocations agreed for pilot countries. It is estimated that such costs will amount to approximately USD 11.5million.

Summary of expected use of the reserve

8. Based on the above provisions, the anticipated use of resources from the reserve, currently estimated at USD 150 million, can be summarized as follows:

Dedicated Mechanism for Indigenous Peoples and Local Communities	USD 50-75 million ¹
Additional allocations for investments in pilot countries	USD 65-90 million
Project/program implementation support and supervision services	USD 11.5 million

¹ Based on current draft proposal for the dedicated grant mechanism (see document FIP/SC.6/7)

CRITERIA FOR DETERMINING INVESTMENTS TO BE FUNDED FROM THE RESERVE

9. It is proposed that in determining the allocation of the reserve, the Sub-Committee consider the following:

- (a) readiness to absorb additional resources,
- (b) demonstrated progress,
- (c) diversity and innovation of the FIP portfolio, and
- (d) impacts to be achieved through FIP funding.

Readiness to absorb additional resources and demonstrated progress

10. In its November 2010 meeting, the Sub-Committee requested the CIF Administrative Unit to include in the semi-annual reports on FIP operations information on progress in the development and implementation of investment plans, challenges identified and mitigation strategies put in place. Through these reports, the FIP Sub-Committee will have information available on the timely development of investment plans and the delivery of FIP-financed activities.

11. Another indicator of readiness will be provided through the SCF pipeline management. For this purpose, the MDB Committee will track, and report to the Sub-Committee on, progress being made in developing and implementing projects and programs. Timely delivery of agreed targets may be seen as an indicator of a country's progress in absorbing the initial allocation and its readiness to undertake an expanded FIP program.

12. Investments in pilot countries that have prepared high quality investment plans and are on track with the timely preparation of projects and programs may be prioritized.

13. Priority also may be assigned to projects and programs that are ready for early implementation, preferably no later than 12 months after approval of FIP funding.

Portfolio Diversity, Innovation and Impacts

14. The FIPs purpose is to initiate transformational changes in the forest sector and sectors affecting the integrity of forest ecosystems through scaling-up of good practices and testing of innovative approaches that can be replicated in the pilot country and across regions. The Sub-Committee may wish to consider the diversity of investments with the overall FIP portfolio and give priority for accessing the reserve to projects that increase this diversity, recognizing that the program is to pilot new approaches.

15. The following considerations may also be given particular attention:

- (a) potential for GHG emission reductions;
- (b) project ideas that build on REDD+ readiness plans supported by the FCPF, UN-REDD Programme or the GEF, or their country-level equivalents.
- (c) innovative financing instruments to be used, such as performance-based incentive mechanisms;

- (d) diversity in addressing drivers of deforestation and forest degradation;
- (e) portfolio balance between public sector and private sector investments; and
- (f) additional resources to be leveraged by the FIP investment.

16. The ranking and weight to be assigned to each of these criteria should be agreed by the Sub-Committee. The Sub-Committee may wish to prioritize up to three criteria for allocating the additional resources.

PROCESS AND SCHEDULE FOR THE ALLOCATION OF THE RESERVE

17. In accordance with the decision by the FIP Sub-Committee, funding from the reserve may be allocated to projects and programs once the investment plans for all eight pilots have been endorsed. It is proposed that the Sub-Committee reconsider this timeline as well as the issues raised in this note no later than 18 months after the criteria for allocating the reserve are initially approved. During this time, more information will be forthcoming regarding the types of investments to be financed by the FIP, the needs of the pilot countries, and the progress achieved in each country. More information should also be available as to the actual funding available through the reserve.

18. Once agreement is reached in the Sub-Committee as to the timeliness of considering requests for additional funding from the reserve, pilot countries should be invited to prepare concept notes for projects and programs that further the transformational impact of their investment plans and that meet the agreed criteria for the use of the reserve. These projects may have already been included in the initial investment plan² or a country may wish to propose additional concepts to further advance its investment plan. The Sub-Committee would be invited to review the concept notes and to agree on which projects would receive funding from the reserve.

19. It is further proposed that during the period between the endorsement of the investment plans and allocation of the reserve, a pilot country be authorized to draw upon a portion of its FIP allocation to prepare project proposals for concepts included in its investment plan, with a view to seeking financing for the project/program either through the reserve or from other development partners. Such funding would provide the pilot with the opportunity to develop a comprehensive project or program proposal so as to attract additional funding from the FIP reserve or other sources and would facilitate early implementation of the project/program should additional funding become available. Requests for such project preparation funds will be submitted to the Sub-Committee for approval.

² The FIP programming document recognizes that pilot countries may program beyond the allocated ranges with a view to encouraging funding from other development partners to support their investment plans and to seeking additional FIP resources from the reserve.