

CLIMATE INVESTMENT FUNDS

FIP/SC.18/3
May 12, 2017

Meeting of the FIP Sub-Committee
Washington DC
Friday, June 09, 2017

Agenda 3

FIP SEMI-ANNUAL OPERATIONAL REPORT

PROPOSED DECISION

The FIP Sub-Committee, having reviewed the document, FIP/SC.18/3, *FIP Semi-Annual Operational Report*, welcomes the progress that has been made in advancing the work of the FIP in the pilot countries.

The Sub-Committee encourages MDBs and the FIP pilot countries to take all possible measures to expedite the implementation of projects and the disbursement of funds.

The Sub-Committee welcomes the progress made in new FIP countries in undertaking steps to develop the investment plans and encourages countries and MDBs to submit remaining investment plans in line with agreed deadlines.

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1 Introduction

1. This document identifies key strategic issues for the Forest Investment Program (FIP), highlights key elements of the decisions taken inter-sessionally by the FIP Sub-Committee, and provides an update of the status of the portfolio of the FIP-funded programs and projects under the endorsed investment plans and related activities.
2. The report covers the period from July 1 to December 31, 2016, with additional updates to March 31, 2017 as a measure to facilitate discussion and decision-making during the upcoming Sub-Committee meeting. It also includes projections on future approvals and information on the factors contributing to the slower than anticipated pace of implementation of investment plans and projects in the country portfolios.

2 Strategic issues

3. The FIP was established in 2008 to provide scaled-up financing to help countries address the drivers of deforestation and forest degradation. It started in eight countries (Brazil, Burkina Faso, DRC, Ghana, Indonesia, Lao PDR, Mexico, and Peru). Currently the FIP is a USD 724 million fund involving 15 new countries (Congo Republic, Cote d'Ivoire, Ecuador, Guatemala, Mozambique, and Nepal with an indicative envelope of resources of USD 24 million, and nine additional unfunded countries provided resources to fund only their investment plan preparation).
4. As of December 31, 2016, USD 364 million have been approved by the multilateral development banks (MDBs) and are supporting the implementation of 24 projects and programs. Of these, 14 projects are reporting results that will lead to an estimated reduction or avoidance of greenhouse gasses (GHG) emission of 11.17 MtCO_{2e}, more than 1.1 million people receiving livelihoods co-benefits, and an area coverage of 27.8 million hectares. Delivery has picked up significantly during recent years in terms of approvals, as well as funds on the ground, as is evident through increased rates of disbursements.

2.1 Strategic work on new financing modalities for the FIP

5. In response to the Strategic Directions for the CIF paper¹ discussed by the CIF Joint Committee in June 2016, the FIP governance body requested the CIF Administrative Unit to make an initial assessment on the feasibility of alternative financing models for the FIP.
6. Forest Trends is supporting the FIP by conducting broad research into emerging public-private finance models that may be well suited to the unique operational structure of the FIP, particularly its channeling of finance through MDBs. This analysis will assess the feasibility of alternative financing models for the FIP that might include additional loans and/or other forms of direct investment (for a financial return) as a means to incentivize greater private investment in forests and REDD+. The work is ongoing through the early part of 2017 with outreach to the MDBs and a range of private sector actors involved in the forest sector.
7. Initial analysis has explored a wide range of investment vehicles and approaches, all of which seek to better leverage public finance to attract and mobilize private sector investments in forests. Potential

¹ Joint CTF-SCF/16/3

models range in geographic focus from the global to the regional and local level, and present a wide range of choices for designing and implementing FIP initiatives, or partnering with other initiatives already under development. While certain investment models fit well within the traditional scope of the FIP-MDB structure and approach of supporting projects at the regional or local level, other models move beyond this approach and aim to catalyze action and investment through the creation of financial architectures operating at the national or global scale. Similarly, opportunities exist to build upon and continue the FIP's emphasis on direct investments targeting the drivers of deforestation, or emphasize higher-level action—aiming to create financial incentives for national-level policy reform. The final report is expected to be available mid-2017.

2.2 Resource availability

8. As of March 31, 2017, the FIP funding envelope stands at USD 724.8 million, down from the previous value of USD 757.9 million on June 30, 2016. This is equivalent to a 4.3 percent reduction of the overall funding envelope during the reporting period due to currency-related declines in the value of the FIP's unencashed GBP-denominated promissory notes held by the Trustee.
9. As a result, the FIP program has a shortfall of USD 26.7 million, including a USD 16.7 million shortfall in grants and USD 9.9 million shortfall in loans. It will not be possible to fully support all existing indicative allocations. The currently projected resource shortfall would result in the equivalent of one full investment plan, or almost two average-size FIP projects remaining unfunded. Currently FIP resources are allocated on a first-come, first-served basis. While this does provide an incentive for timely submission of projects for Sub-Committee approval, it is clear that project approvals are subject to available resources. This simple approach may disadvantage countries that have already experienced difficulties in the preparation of their investment plans. The Sub-Committee may wish to consider how to address the shortfall when approving project proposals in conjunction with implementation of the FIP Pipeline Management Policy. Detailed information on the FIP resource availability is provided in Annex 2.

Table 1: Resource Availability Schedule (amounts expressed in USD million)

Unrestricted Fund Balance (A)			250.3
Total Anticipated Commitments (FY17-21) Program/Project Funding and MPIS Costs (B)			(310.8)
Available Resources (A - B)			(60.6)
Potential Future Resources (FY17-FY21)			
<i>Release of Currency Risk Reserves²</i>		33.6	
<i>Pledges</i>		0.3	
Total Potential Future Resources (C)			33.9
Potential Available Resources (A - B + C)			(26.7)

² Amounts withheld to mitigate over-commitment risk resulting from the effects of currency exchange rate fluctuations on the value of outstanding non-USD denominated promissory notes.

2.3 New Pipeline Management Policy³

10. On January 18, 2017 the FIP Sub-Committee approved the new Pipeline Management Policy for the FIP, an update to the November 2011 policy, which provides a framework for the implementation of the existing SCF policy as it pertains the FIP and PPCR, and to enhance pipeline management and prioritization of their portfolios.
11. Regarding investment plans, new pilot countries that were accepted to the FIP in May 2015 are expected to submit their investment plans for endorsement no later than June 2017. Of the six countries with indicative allocations, Mozambique and Ivory Coast submitted their investment plans in June 2016. Guatemala will submit its investment plan in June 2017, and Ecuador, Congo Republic, and Nepal have requested an extension of deadline to submit by December 2017.
12. Projects that have currently exceeded the submission deadline of 24 months are subject to cancellation in September 2017 unless granted an extension during the June 2017 Sub-Committee meeting. Annex 1 presents the list of delayed projects under this category.

2.4 Knowledge management highlights

13. As the FIP portfolio continues to mature, more projects are becoming effective and starting to report on their implementation achievement as well as challenges. This creates an opportunity for knowledge sharing within and between countries, as well as transfer of lessons learned to new pilot countries.
14. The CIF's newly launched Evaluation and Learning (E&L) Initiative is funding two major learning partnerships focused on FIP issues: The Learning Partnership on the Dedicated Grant Mechanism for Indigenous People and Local Communities (DGM), and the Learning Partnership on Financing Forest-Related Enterprises. Through its call for proposals, the L&E Initiative is also funding two World Bank studies: "Pathway for Designing a Mechanism to Incentivize Deforestation-Free Landscapes and Value Chains for Green Growth" and "FIP: Lessons Learned."
15. In addition, the CIF Administrative Unit is partnering with the Development Impact Evaluation (DIME) in the World Bank's Research Group to fund adaptive evaluation and learning activities in support of Burkina Faso FIP projects. The CIF also collaborated with the World Bank and Program on Forests (PROFOR) to produce the publication "Harnessing the Potential of Private Sector Engagement in Productive Forests for Green Growth."⁴

3 Status of the FIP

3.1 Overview and trends

16. As of December 2016, USD 603.0 million has been endorsed by the FIP Sub-Committee as indicative allocations to participating countries, totaling 51 projects included in investment plans, the DGM, and the FIP private sector set-aside (PSSA). Table 2 provides a summary of the portfolio status.

³ Policy can be found on the CIF website https://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/fip_sc.17_5_rev.1_decision_by_mail_pipeline_management_policy_final_rev.pdf

⁴ Available at <http://www.climateinvestmentfunds.org/news/how-productive-forests-can-help-foster-green-growth-and-mitigate-climate-change>

Table 2: Overview of FIP Portfolio (USD million) ⁵

	Indicative Pipeline Allocation				Approved funding		Disbursement (cumulative)
	TOTAL	IP	DGM	PSSA	Committee	MDB	
FIP Amount (in \$M)	603.0	502.7	80	20.3	380.9	364.1	79.1
Number of projects	51	31	16	4	28	24	19

17. By December 2016, 28 projects have been approved by the FIP Sub-Committee for a total of USD 381 million. Figure 1⁶ shows that cumulative funding approvals have risen steadily since endorsement of FIP investment plans, PSSA concepts, and the DGM. According to the most recent update from the MDBs, a total of 13 projects will be submitted for Sub-Committee approval during fiscal year 2017 (FY17).⁷
18. In addition, 63 percent of the currently endorsed funding has been approved by the Sub-Committee, while the MDB approval rate is 60 percent. If current projections⁸ hold true, the expected approval rates up to the end of FY17 (June 2017) will continue to increase to a total of 79 percent of the funds approved by the Sub-Committee and 67 percent approved by the MDBs (see Figure 2).⁹

⁵ Includes PPG and, for disbursements, also IPPGs. Approved funding includes USD2.03 million for PPGs of 8 projects that are yet to be approved.

⁶ Figure 1 does not include projects for which the MDBs have not provided an expected date for Sub-Committee approval.

⁷ FY 2017: Fiscal Year 2017 (July 2016-June 2017)

⁸ Based on information provided by MDBs.

⁹ Data analyzed only includes projects for which the MDBs have provided an expected approval date, and does not include projections for approvals for new investment plans.

Figure 1: Project Approvals by FIP Sub-Committee by Fiscal Year

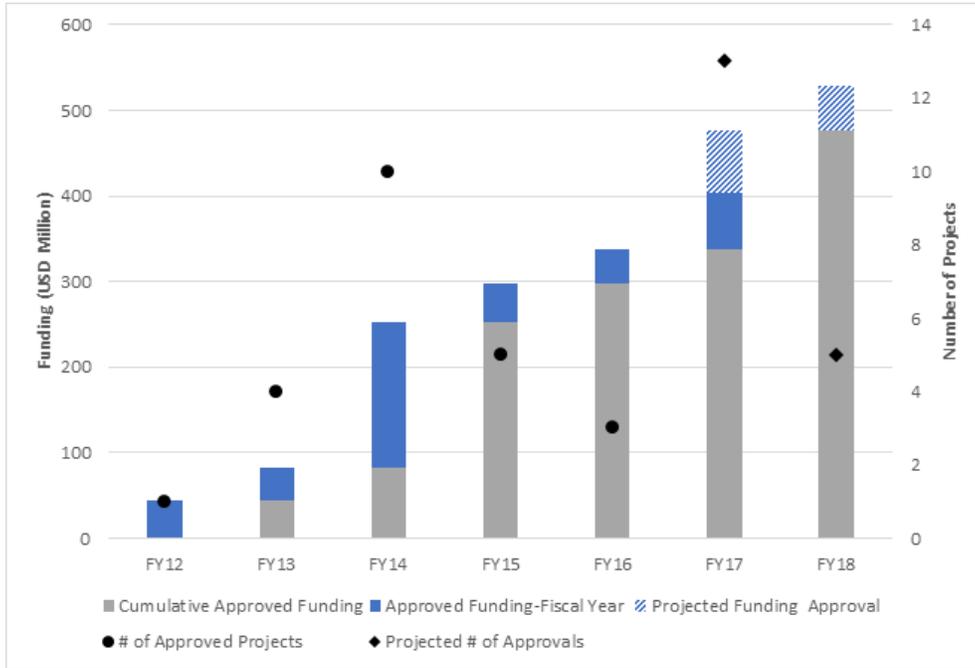
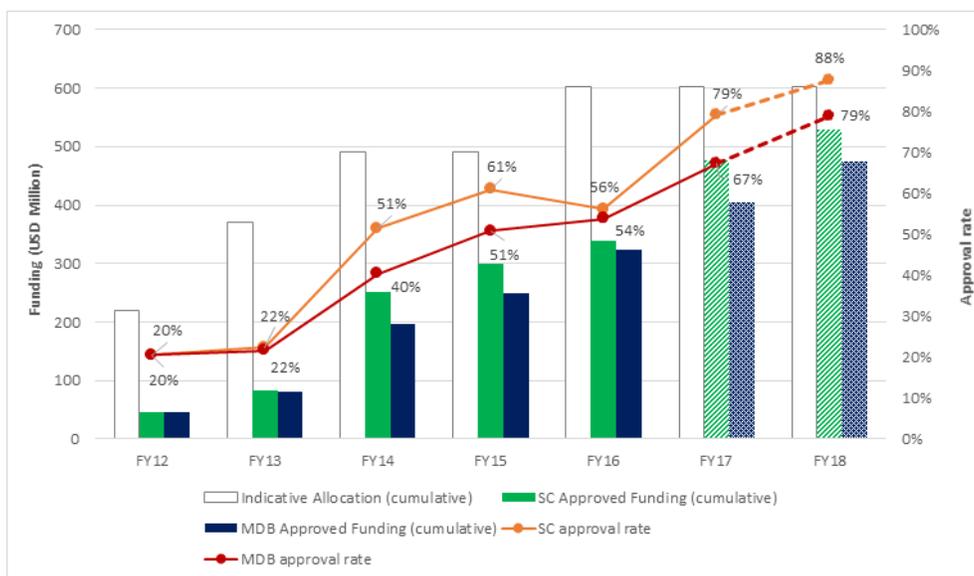


Figure 2: FIP Funding Approval Rates by Fiscal Year (Projections for FY17 and FY18)



3.2 Portfolio updates

3.2.1 Investment plans

19. During this reporting period, the FIP Sub-Committee endorsed the Investment Plan of Tunisia,¹⁰ encouraging the Government of Tunisia and the MDBs to actively seek resources from other bilateral or multilateral sources to fund the investment plan (see Box 1). As of December 2016, the FIP Sub-Committee has endorsed a total of 11 investment plans, including eight from all original pilot countries and three out of 15 additional countries.
20. The new and additional countries that joined the FIP in May 2015 are expected to submit their investment plans for endorsement within a two-year timeframe (by the FIP Sub-Committee in June 2017). Annex 3 presents an update of the status of the investment plans that are currently under preparation.

¹⁰ The investment plan is available at: http://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/fip_17_4_fip_investment_plan_for_tunisia_final.pdf

Box 1: Tunisia holds first FIP investment plan endorsed in the MENA region



Tunisia’s FIP investment plan was developed through an inclusive process, under the responsibility of the Tunisian government, represented by the Ministry of Agriculture, Water Resources and Fisheries (MARHP), with the assistance of the World Bank, AfDB, EBRD, and the Food and Agriculture Organization of the UN. The investment plan supports the parallel REDD+ process through three investment project concepts aimed at reducing deforestation and degradation of forests and rangelands, improving carbon sequestration in biomass and soils, and providing significant socio-economic and environmental co-benefits.

3.2.2 FIP Sub-Committee approvals

21. During the reporting period, five projects were approved by the FIP Sub-Committee for a total of USD 42.8 million. This includes the approval of the first two projects from the PSSA for USD 14 million (see Table 3).

Table 3: FIP Sub-Committee Approved Projects and Programs (July 1-December 31, 2016)

Country	Project Title	MDB	Project Funding ¹¹	Approval Date
Indonesia	Community-Focused Investments to Address Deforestation and Forest Degradation (CFI-ADD+)	ADB	17.00	Jul-16
Ghana	Public-Private Partnership for restoration of degraded forest reserve through VCS and FSC certified plantations	AfDB	10.00	Jul-16
Ghana	DGM for Indigenous Peoples and Local Communities	IBRD	5.50	Sep-16
Indonesia	DGM for Indigenous Peoples and Local Communities	IBRD	6.33	Dec-16
Burkina Faso	Climate change mitigation and poverty reduction through the development of the cashew sector in Burkina Faso (Wouol project)	AfDB	4.00	Dec-16
TOTAL			42.83	

¹¹ Excluding PPG that was approved in previous reporting periods

3.2.3 MDB approvals

22. Three projects were approved by their respective MDB boards during the reporting period for a total of USD 29.84 million (see Table 4). Boxes 2 and 3 highlight two of these projects in Ghana and Indonesia.

Box 2: AfDB's first private-sector investment in a sustainable plantation



Project: Public-Private Partnership for restoration of degraded forest reserves through VCS and FSC-certified plantations in Ghana

FIP Financing: USD 10 million

Implementing Agency: AfDB

Objective: Restore degraded forest reserves by scaling up an existing 5,000 ha Forest Stewardship Council (FSC)-certified plantation to 11,700 hectares (ha) of sustainable commercial forest plantation composed of 10 percent indigenous tree species and 90 percent teak.

The project will be implemented by Form Ghana Ltd., a leading forestry company based in Netherlands specialized in forestry investments and technical management of forest plantations, in collaboration with the Government of Ghana through the Forestry Commission of Ghana. The existing plantation is certified against the FSC and Verified Carbon Standard (VCS).

The project cost is estimated at USD 46.4 million and will be financed through equity, debt, and internally generated funds. Total debt of USD 24 million will be provided by the AfDB and the FIP.

Table 4: MDB Approved Projects and Programs (July 1-December 31, 2016)

IP/DGM/PSSA	Country	Project Title	MDB	Project Funding ¹²	Approval Date
IP	Lao PDR	Protecting Forests for Sustainable Ecosystem Services	ADB	12.84	Aug-16
IP	Indonesia	Community-Focused Investments to Address Deforestation and Forest Degradation (CFI-ADD+)	ADB	17.00	Sep-16
PSSA	Ghana	Public-Private Partnership for restoration of degraded forest reserve through VCS and FSC certified plantations	AfDB	10.00	Sep-16
TOTAL				29.84	

¹² Excluding PPG that was approved in previous reporting periods

Box 3: Catalyzing community action in sustainable management of forests in West Kalimantan, Indonesia



Project: Indonesia - Community-Focused Investments to Address Deforestation and Forest Degradation Project

FIP Financing: USD 17.5 million

Implementing Agency: ADB

Objective: Support local communities in four forest management units of West Kalimantan to sustainably manage their forests in a gender-responsive manner for reducing emissions from deforestation and forest degradation (REDD+) and enhance both livelihood and ecosystem benefits from forests

Community benefits expected from the project include increased household incomes and improved clarification on access to land and other natural resources, including bringing 17,000 ha of natural forest land under community-based forest management. Ecosystem benefits include conservation of biodiversity, flood control, and reduction of greenhouse gas emissions (estimated at about 3 MtCO_{2e}).

The project has explicit targets for women's participation in natural resource management governance and training. It envisions half of the 10,000 project beneficiaries to be women, and outcomes include improved resource access and tenure security in the project areas. The Gender Action Plan (GAP) developed for the project sets targets of at least 30 percent female participation in workshops, REDD+ readiness and implementation activities, consultation processes, and in community management groups. To reach female clients, new field facilitators and technical experts should be at least 40 percent female. Half of the trainees in the project on new livelihood skills should be female.

3.2.4 *Dedicated Grant Mechanism for Indigenous Peoples and Local Communities*¹³

23. During the reporting period, the DGM Global Learning and Knowledge Exchange project (DGM Global) facilitated the following knowledge sharing events: an African Regional Exchange (Burkina Faso, July 2016), a Global Exchange prior to the UNFCCC COP22 (Morocco, November 2016), and two side-events during the UNFCCC COP22.
24. These facilitated peer-to-peer learning, thereby enabling some of the countries with less advanced projects to learn from those that have already progressed into implementation. They also gave participants an opportunity to learn more about the current state of climate change discussions, develop important negotiating skills, and map out their networks for information sharing to identify

¹³ Detailed information can be found in the Semi-Annual Report produced by Conservation International, available at www.dgmglobal.org.

gaps and key opportunities.

25. Out of the six approved DGM country projects:

- a) Indonesia and Ghana were approved by the FIP Sub-Committee in September 2016.
- b) DRC’s National Steering Committee (NSC) validated a manual of administrative, financial, accounting, and procurement procedures and is ready to start implementation on the ground.
- c) Brazil, Burkina Faso, and Peru have already had their first call for sub-project proposals.

26. Mexico is undergoing the preparation of the Project Appraisal Document (PAD) for World Bank approval and the selection of a NEA to manage the project and serve as secretariat to the NSC.

27. Of the newly approved FIP countries, Mozambique, has established its NSC, while Cote d’Ivoire, Nepal and Republic of Congo have reported advances in establishing the DGM by forming interim NSCs.

3.3 Project pipeline tracking

28. The CIF Administrative Unit keeps track of the status of the endorsed portfolio in order to monitor project approval delays in two stages: time elapsed between investment plan endorsement and FIP Sub-Committee approval and time elapsed between FIP Sub-Committee approval and MDB approval.

29. On average, the 24 projects that have been MDB-approved have taken 29 months between the investment plan endorsement and the approval by the MDB (24 months between investment plan endorsement and FIP Sub-Committee approval, and five months between FIP Sub-Committee approval and MDB approval). This has increased since the last reporting period due to the inclusion of three long-delayed projects.

30. Per last updates by the MDBs, 10 projects have exceeded the agreed benchmark of 24 months or more without receiving FIP Sub-Committee approval. They include two projects from the DGM, two from the PSSA, two private sector projects from IFC, and the four projects endorsed in Peru’s investment plan. The complete list is presented in Annex 1, and an update on the status of the delayed projects is included in Annex 4.

Table 5: Projects awaiting approval by FIP Sub-Committee and MDBs (in USD million)¹⁴

IP Endorsement to SC Approval Time Lapse			SC Approval to MDB Approval Time Lapse		
Time Elapsed	No. of Projects	Total Funding	Time Elapsed	No. of Projects	Total Funding
Less than 16 months	12	109	Less than 6 months	2	11
16-24 months	1	5	6-9 months	1	6
More than 24 months	10	111	More than 9 months	1	1
Total	23	224	Total	4	18

31. The only project that is taking more than nine months from FIP Sub-Committee to MDB approval is

¹⁴ As of December 2016.

the *Brazil - Investment Plan Coordination Project* (USD 1 million). The National Treasury Attorney's Office (PGFN) decided to start internal processing of this project jointly with the *FIP: CAR project*. This process was delayed because, due to the country's fiscal restrictions, the Ministry of Environment (MMA) did not have budget recorded in the National Annual Budget Law (LOA/2017) to cover operation costs to implement the *FIP: CAR project* and the PGFN halted the approval process for both projects until funds became available. Recently the PGFN agreed to authorize the *FIP: CAR project* signature, and the approval process is expected to be finalized by May.

32. Concerning outlook for projected submissions, Table 6 provides the list of seven additional projects that are expected to be approved by the FIP Sub-Committee by the end of FY17, totaling USD 91.65 million.
33. It is important to highlight that if these estimates hold true, both Cote d'Ivoire and Mozambique would achieve the approval of their entire investment plans in less than a year.

Table 6: Projects in Preparation for FIP Sub-Committee Approval in the First Semester of 2017¹⁵

Country	Project Title	MDB	Public/ Private	Total Endorsed Funding	IP Endorsement	Expected SC Approval Date
Cote d'Ivoire	Tai National Park Management Support Project (PAGT)	AfDB	Public	3.30	Jun-16	Apr-17
Cote d'Ivoire	Forest Cover Restoration Project (FCRP)	IBRD	Public	20.70	Jun-16	Jun-17
Mozambique	Mozambique Forest Investment Project (MozFIP)	IBRD	Public	22.00	Jun-16	Jan-17
Mexico	DGM for Indigenous Peoples and Local Communities	IBRD	Public	6.00	Nov-13	May-17
Brazil	Macauba Palm Oil in Silvicultural System	IDB	Private	3.00	Oct-13	Jun-17
Indonesia	Strengthening Forest Enterprises to Mitigate Carbon Emissions	IFC	Private	34.65	Nov-12	Jun-17
Mozambique	Emissions Reductions in the Forest Sector Through Planted Forests with Major Investors	IFC	Private	2.00	Jun-16	Apr-17

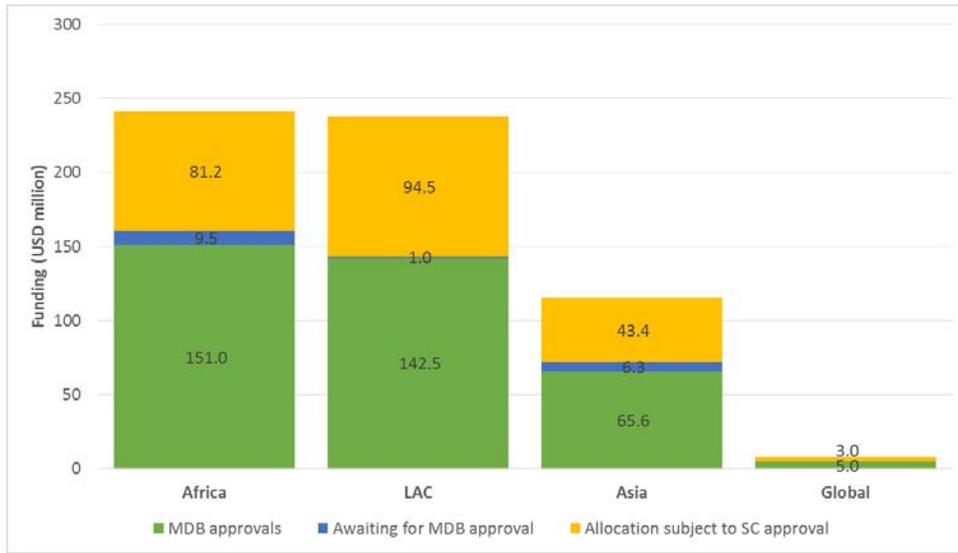
3.4 Portfolio breakdown analysis

3.4.1 Portfolio by region and country

34. Figure 3 shows the FIP funding distribution across regions. With the endorsement of new investment plans for two African countries, FIP funding is now equally allocated between Latin America and Caribbean (40 percent), and Africa regions (40 percent). The FIP pilot countries in Asia represent 19 percent of FIP funding, and the rest (1 percent) is allocated for the Global DGM project.
35. Progress in approval of FIP funding by the FIP Sub-Committee is similar for the three regions: 66 percent of the endorsed funding has been approved for countries in Africa, 62 percent for Asian countries, and 60 percent for Latin American countries.

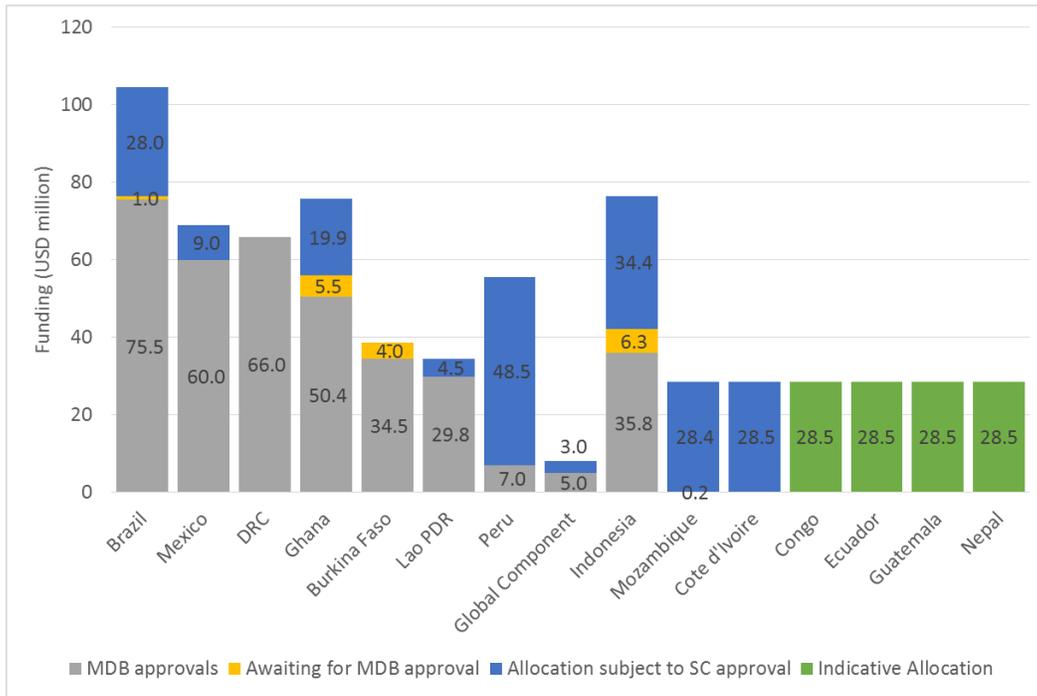
¹⁵ Project funding does not include PPG. Based on information received by MDBs as of December 2016.

Figure 3: Indicative Allocation of Funding and Approvals by Region



36. Figure 4 shows the approval levels of endorsed FIP funding by pilot country and the DGM Global Component. Currently only DRC and Burkina Faso have achieved 100 percent FIP Sub-Committee approval of all indicative funding. Peru and Indonesia have experienced more delays in project preparation and approval, reaching only 12.6 percent and 46.8 percent approval by FIP Sub-Committee, respectively.

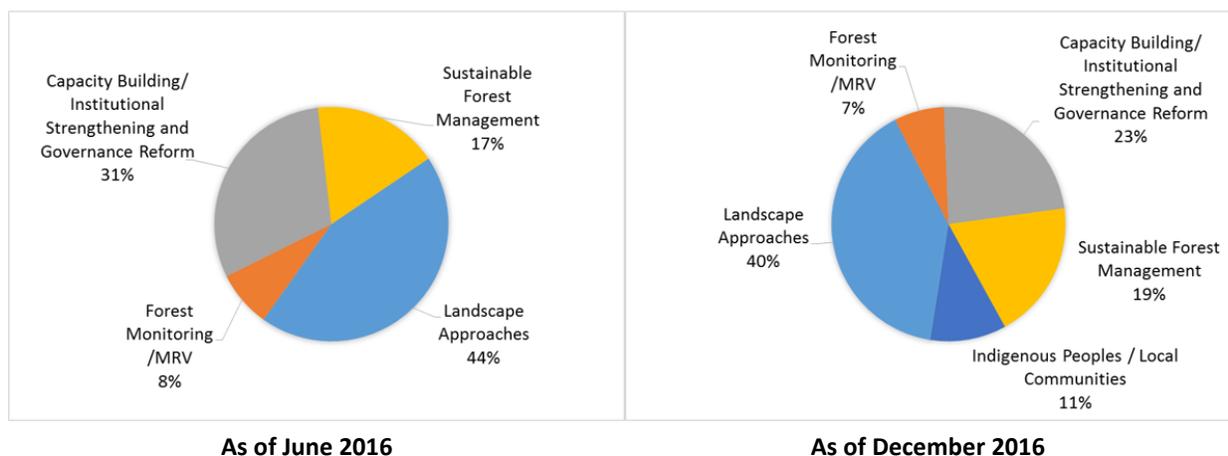
Figure 4: Funding Approval over Indicative Allocations by Country



3.4.2 Portfolio by thematic focus

37. In the previous reporting period (June 2016), the CIF Administrative Unit presented a new classification of themes for FIP projects and provided an analysis based on the projects approved by the FIP Sub-Committee. Based on the request from the FIP Sub-Committee, the classification has now been revised to include the support provided for Indigenous Peoples and Local Communities as a thematic focus.
38. Figure 5 provides a comparison between the classification between the current and last reporting periods. The reintroduction of 'Indigenous Peoples and Local Communities' as a thematic focus has resulted in a significant drop in the percentage of funds allocated to 'Capacity Building.' This change is expected as most of the DGM projects have a strong focus on strengthening capacities and support institutional and governance reform related to land tenure issues.
39. The largest portion of FIP funding focuses on 'Landscape Approaches,' which gives an accurate reflection of the demand for on-the-ground investments that address the main drivers of deforestation within a wider landscape (outside forests).

Figure 5: Thematic Focus of Sub-Committee Approved Projects

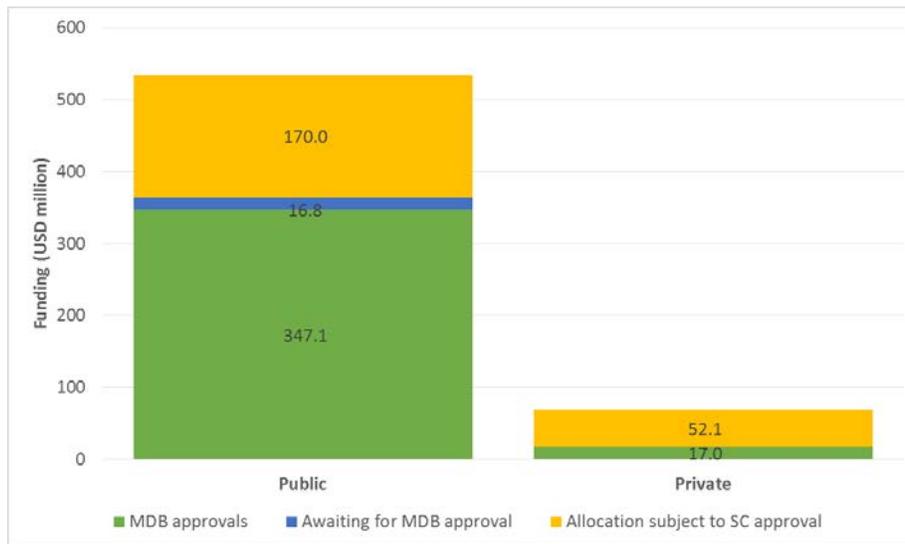


3.4.3 Portfolio by sector

40. Figure 6 shows that USD 533.9 million (88.5 percent) of FIP allocated funds is for the public sector, of which 68.2 percent has already been approved by the FIP Sub-Committee. Of the total public sector funding, USD 418.9 million are in grants and USD 115 million are in loans.
41. The private sector FIP portfolio totals USD 69.1 million, of which 82.9 percent (USD 57.3 million) is in loans.
42. During this reporting period, the FIP Sub-Committee approved the first two PSSA projects for a total of USD 14.3 million.¹⁶ Both projects are from the AfDB: one in Burkina Faso focusing on developing the cashew sector and the other one in Ghana supporting a public-private partnership for establishing certified plantations (see Box 2).

¹⁶ This amount includes funding for PPGs and projects.

Figure 6: Indicative Allocation of FIP Funding and Approvals by Sector

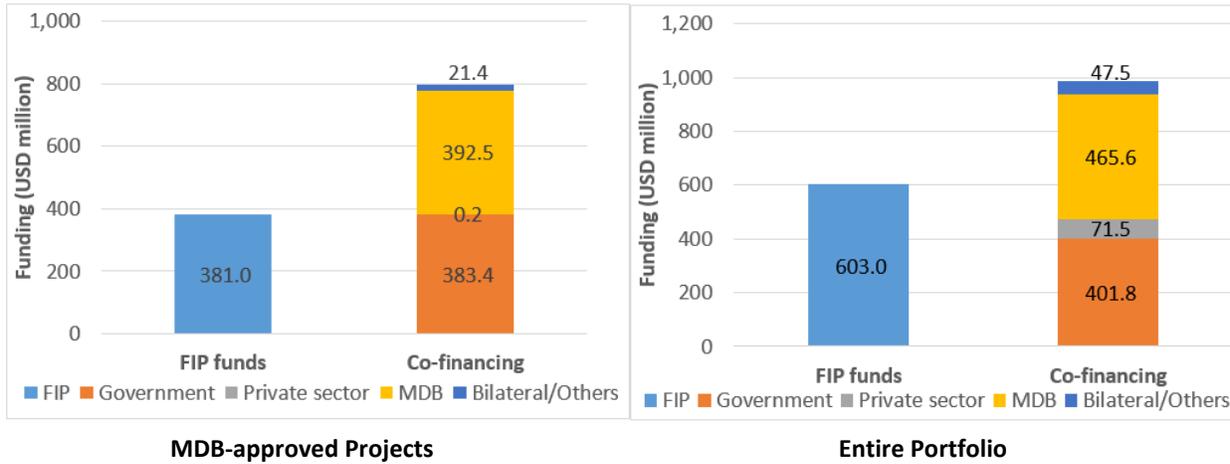


3.5 Co-financing

43. Projected co-finance is based on the most updated information available to the CIF (investment plans for projects that are under preparation, project documents for Sub-Committee-approved projects, and Annex G provided by MDBs to the CIF Trustee for MDB-approved projects).
44. The expected co-financing for MDB-approved projects is USD 797.5 million, which compared to the total FIP funding, gives a co-finance ratio of 1:2.1.¹⁷ In comparison, the co-financing ratio for the entire FIP portfolio is 1:1.6, with a projected co-finance total of USD 983.45 million.
45. In both cases, MDBs and governments are the main sources of co-financing for the FIP, adding to more than 88 percent for the FIP pipeline and 97 percent for the MDB-approved projects.

¹⁷ Important to take into consideration that about 69 percent of the expected co-finance for the FIP portfolio comes from the Mexico - Forests and Climate Change Project (USD 683 million). An analysis of FIP portfolio co-finance with and without this project was presented in the December 2016 SAR.

Figure 7: FIP Co-Financing Breakdown by Source for MDB-Approved Projects and Entire FIP Portfolio¹⁸

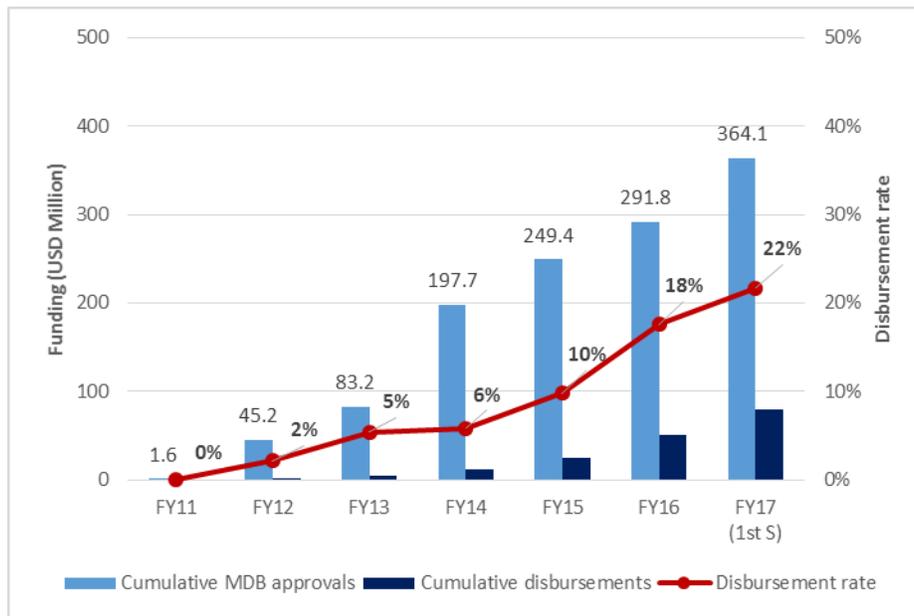


3.6 Disbursements

46. Disbursements by MDBs continue to increase, totaling USD 79.05 million, including USD 2.1 million of Investment Plan Preparation Grants (IPPGs). The other USD 76.95 million corresponds to disbursements of 19 projects under implementation, including Project Preparation Grants (PPGs).
47. As a percentage of the MDB-approved funding, the level of disbursement (22 percent) has increased significantly compared to last fiscal year. Taking into consideration that the average age of projects under implementation is 2.3 years, we expect the disbursement level to continue to increase significantly as projects pass the initial years of implementation, which are normally characterized by modest rates of disbursement. Annex 5 provides a list of project implementation highlights.
48. Detailed disbursement data is presented in the Annex of the CIF Disbursement Report (as of December 31, 2016).

¹⁸ In the case of co-finance for FIP portfolio, this includes indicative amounts for projects under preparation, Sub-Committee-approved projects, and MDB-approved projects.

Figure 8: Disbursements in the FIP by Reporting Period and Fiscal Year



4 Cross-cutting themes

4.1 Gender

49. The portfolio of investment plans and projects approved by the FIP Sub-Committee from July 1 to December 31, 2016 was reviewed to assess progress regarding gender ‘quality at entry of investment plan and project design. Three scorecard indicators on presence of 1) sector-specific gender analysis, 2) women-specific activities, and 3) sex-disaggregated indicators were reviewed for each investment plan and project. Figures were compared to baseline performance of the FIP portfolio as of June 30, 2014.
50. Overall, FIP performance against these indicators was strong. The single FIP investment plan approved during the period under review included sector-specific gender analysis, activities specifically targeted at women, and sex-disaggregated indicators (compared to baseline values of 50 percent, 53 percent and 75 percent, respectively). A full 100 percent of the FIP projects approved during this period scored positively on having sector-specific gender analysis (baseline 29 percent), 80 percent of projects had specific activities targeted at women (baseline 13 percent), and 60 percent of projects had sex-disaggregated indicators (baseline 35 percent).
51. The CIF Gender Action Plan – Phase 2 was approved by the Joint CTF-SCF Trust Fund Committee in December 2016 for implementation through 2020. Building on the progress under Phase 1, the Phase 2 Plan features a shift from ‘gender mainstreaming’ processes alone, to an emphasis on outcomes framed under a more ambitious gender-transformational goal of “women’s improved asset position, voice and livelihoods status through access to benefits from CIF-funded investments.” Phase 2 will deepen CIF efforts on policy, technical support, evaluation and learning, and stakeholder engagement, including elaboration of a CIF Gender Policy, as well as a scaled-up

analytical and knowledge agenda. The new phase focuses on three pillars of gender interventions in relation to CIF-wide and program governance, local and national institutions, and green growth and sustainable livelihoods. Phase 2 results will be tracked under a new set of impact indicators, in addition to those already in place at the level of outputs.

52. This reporting period saw expanded provision of direct technical support from the CIF Administrative Unit to CIF projects, upon request from countries and MDBs. This included an extended mission in August 2016 to FIP Burkina Faso, to support gender integration processes in the World Bank project on decentralized forest management, including enhancement of women's participation in sub-project identification at local commune level, using participatory processes, and planning support for a gender analytical agenda for the project.

4.2 Knowledge management

53. The FIP, in collaboration with the MDBs, is embarking on a comprehensive knowledge management and learning process using a range of evaluations, case studies, and south-south exchanges to support to FIP countries in improving results and increasing efficiency of the FIP program.

4.2.1 CIF Evaluation and Learning Initiative

54. The CIF Evaluation and Learning (E&L) Initiative was approved by the Joint Meeting of the CTF-SCF Trust Fund Committees in May 2015. The overarching purpose of the initiative is to capture evidence and lessons to inform both ongoing CIF activities and future climate finance investments. The E&L Initiative Business Plan, approved in June 2016, commits to undertaking catalytic evaluation and learning activities that are demand-driven, relevant, and applied to important decisions and strategies.
55. The E&L Initiative is funding two major learning partnerships focused on FIP issues:
- a) Learning Partnership on the DGM: This real-time learning partnership in the DGM will be a collaborative and participatory process of ongoing evaluation, research, and knowledge exchange. It will seek to identify how and in what ways the DGM and DGM-like mechanisms are, or can, address the DGM's core objective: to build capacity and empower forest dependent communities so that they have a greater role in the design and implementation of forest policies and programs which impact them.
 - b) Learning Partnership on Financing Forest-Related Enterprises: The purpose of this learning partnership is to help increase the viability and scale of investments in sustainable forest-related enterprises by harvesting lessons from different financing models tested in the FIP and non-CIF investments, and applying learning to ongoing and planned forest investments. The scope of work examined will include grant investments upstream, but largely focus on non-grant investments into both public and private sector organizations and institutions. The specific areas of focus and targeted scope of analysis will be co-developed with primary user groups in the inception phase, but will explicitly seek to complement, or address, a specific area of inquiry within private sector engagement, based on existing evaluative and meta-analyses that are ongoing and/or recently completed.
56. An E&L Call for Proposals successfully engaged a range of CIF entities, generating submission of 11

evaluation and learning proposals from MDBs, recipient countries, and CIF Observers. Two FIP proposals were submitted in December 2016 by the World Bank FIP team. The first proposal for the development of a knowledge management product is focused on identifying lessons learned from FIP investments, based on experiences from the 11 pilot FIP countries that have developed and presented their investment plans. The second proposal, “Pathway for Designing a Mechanism to Incentivize Deforestation-Free Landscapes and Value Chains for Green Growth,” aims to outline and conceptualize potential incentive mechanisms that can reward countries that create an enabling environment by providing tax and/or other incentives to private sector companies to adopt sustainable, deforestation-free production methods and supply chains that are independently verified.

4.2.2 Knowledge partnerships and exchanges

57. The strong collaboration with PROFOR through the World Bank FIP Focal Point Team continues. The latest knowledge product publication resulting from this collaboration is titled “Harnessing the Potential of Private Sector Engagement in Productive Forests for Green Growth”.¹⁹ Based on six country studies, the document provides evidence of the importance of promoting harvested wood products (HWP), such as wood for construction or furniture or biomass for energy, for mitigating climate change and maximizing the economic, social, and environmental potential of the forest sector. It identifies the main barriers for promoting HWP and provides recommendations to address these issues.

58. As part of the partnership with the Development Impact Evaluation (DIME) in the World Bank’s Research Group, the CIF is funding adaptive evaluation and learning activities in support of Burkina Faso FIP projects. Two projects were selected, the *Project for the Decentralized Management of Forests and Wooded Areas* financed through the World Bank, and the *Gazetted Forest Participatory Management Project for REDD+* financed through the AfDB. The following activities are being supported:

- a) Piloting the use of remotely sensed satellite imageries and drone technology for measuring and monitoring forest cover state and change
- b) Comparing alternative Payment for Ecosystem Services (PES) arrangements to understand their efficacy on the performance of reforestation activities
- c) Comparing alternative governance mechanisms of collective Payment for Ecosystem Services (PES)

59. IDB supported an exchange of lessons learned in climate finance and FIP between government officials from Mexico and Guatemala. Representatives of Guatemala, currently designing their investment plan, travelled to Mexico to learn from their experience as an early mover on how to design and implement FIP successfully.

4.3 Monitoring and reporting

60. Currently six countries are reporting on results from 14 projects in the FIP portfolio. The portfolio is still young and reported results vary greatly between these projects. Some are reporting on

¹⁹ Document is available at: <http://www-cif.climateinvestmentfunds.org/news/how-productive-forests-can-help-foster-green-growth-and-mitigate-climate-change>

improvements in the enabling environment while others report actual results against set targets.

61. After three years of monitoring and reporting (M&R) toolkit implementation, the CIF is undertaking a stocktaking review of the FIP M&R system during the first half of 2017. The review examines how to enhance the effectiveness and usefulness of the system and addresses the issues identified in the implementation over the last three years. The main issues are related to consistency and reliability of data. Some indicators have also proven difficult to measure on an annual basis. The revised FIP M&R system will be presented to the FIP Sub-Committee meeting in June 2017.

4.4 Risk management

62. In December 2016, the CIF Administrative Unit circulated a Risk Report highlighting the impacts of currency risk exposures on available resources for each program/subprogram.
63. In May 2017, the CIF Administrative Unit posted a Risk Report updating the Trust Fund Committee and Subcommittees on the key risk exposures²⁰. This report highlights three FIP projects which the CIF Administrative Unit flagged for implementation risk (i.e., the risk that, after a project becomes effective, it is not implemented in a timely manner). The 2017 Risk Report also outlines the next steps for continuing to implement the ERM Framework.
64. The CIF Administrative Unit, working with the MDBs and the Trustee, developed and operationalized risk dashboards for the three SCF subprograms to facilitate risk exposure monitoring and reporting. They were launched in May 2017, with information on these reporting platforms to be updated monthly.

4.5 Synergies with other REDD+ funding mechanisms

65. Synergies with other REDD+ funding mechanisms continue to be developed. The Nepal FIP investment plan workshop in October 2016 included participation of Forest Carbon Partnership Facility (FCPF) representatives, who identified readiness links, and FAO staff, who considered links with a proposed Green Climate Fund (GCF) funding proposal. The Tunisian investment plan endorsed by the Sub-Committee in December 2016 identified the GCF as a potential source of REDD+ funding for three project concepts.

²⁰ Joint CTF-SCF.17/7

Annex 1: Projects awaiting approval by FIP Sub-Committee for over 24 months

IP/ DGM/ PSSA/ CA	Country	Project Title	MDB	Public/ Private	FIP Funding ²¹	Months since funding endorsed ²²
IP	Ghana	Engaging the Private Sector in REDD+	IFC	Private	9.75	48
IP	Indonesia	Strengthening Forest Enterprises to Mitigate Carbon Emissions	IFC	Private	34.70	48
IP	Peru	Integrated Forest Landscape Management Along the Main Route Between Tarapoto and Yurimaguas in the Regions of San Martin and Loreto	IDB	Public	12.20	37
IP	Peru	Integrated Land management in Atalaya, Ucayali Region	IBRD	Public	12.20	37
IP	Peru	Integrated Landscape Management Along the Main Route Between Puerto Maldonado and Inapari and in the Amarakaeri Communal Reserve	IDB	Public	12.00	37
IP	Peru	Strengthening National Forest Governance and Innovation	IDB	Public	12.10	37
DGM	Lao PDR	DGM for Indigenous Peoples and Local Communities	IBRD	Public	4.50	37
DGM	Mexico	DGM for Indigenous Peoples and Local Communities	IBRD	Public	6.00	37
PSSA	Mexico	Guarantee Fund for financing low carbon forestry investments	IDB	Private	3.00	37
PSSA	Brazil	Macauba Palm Oil in Silvicultural System	IDB	Private	3.00	37

²¹ Excluding PPGs that were already approved

²² As of December 2016

Annex 2: Resource availability in the FIP

FIP TRUST FUND - RESOURCES AVAILABLE for COMMITMENTS	
<i>Inception through March 31, 2017</i>	
<i>(USD millions)</i>	
Cumulative Funding Received	
Contributions Received	
Cash Contributions	501.1
Unencashed promissory notes	a/ 223.7
Total Contributions Received	<u>724.8</u>
Other Resources	
Investment Income	14.5
Other income	-
Total Other Resources	<u>14.5</u>
Total Cumulative Funding Received (A)	<u>739.4</u>
Cumulative Funding Commitments	
Projects/Programs	423.4
MDB Project Implementation and Supervision services (MPIS) Costs	22.8
Cumulative Administrative Expenses	25.4
Total Cumulative Funding Commitments	<u>471.5</u>
Project/Program Cancellations	b/ <u>(16.0)</u>
Net Cumulative Funding Commitments (B)	<u>455.5</u>
Fund Balance (A - B)	
	<u>283.8</u>
Currency Risk Reserves	c/ <u>(33.6)</u>
Unrestricted Fund Balance (C)	<u>250.3</u>
Anticipated Commitments (FY17-FY21)	
Program/Project Funding and MPIS Costs	<u>310.8</u>
Total Anticipated Commitments (D)	<u>310.8</u>
Available Resources (C - D)	<u>(60.6)</u>
Potential Future Resources (FY17-FY21)	
Pledges	d/ 0.3
Release of Currency Risk Reserves	c/ <u>33.6</u>
Total Potential Future Resources (E)	<u>33.9</u>
Potential Available Resources (C - D + E)	<u>(26.7)</u>
<p>a/ This amount represents USD equivalent of GBP 179.6 million.</p> <p>b/ This refers to cancellation of program and project commitments approved by the committee.</p> <p>c/ Amounts withheld to mitigate over-commitment risk resulting from the effects of currency exchange rate fluctuations on the value of outstanding non-USD denominated promissory notes.</p> <p>d/ The balance of the pledge amount from the U.S</p>	

Annex 3: Update on investment plan (IP) development

1. **Bangladesh:** Led by WB. Missions held in October 2016 and January 2017. IP expected to be submitted for the FIP Sub-Committee December 2017 meeting. A request for extension of IP approval will be submitted prior the deadline.
2. **Cambodia:** Led by ADB. Missions held in October 2016 and February 2017. IP expected to be submitted for the FIP Sub-Committee June 2017 meeting.
3. **Cameroon:** Led by WB. Mission held in October 2016, next Joint mission is expected to take place in May 2017. IP expected to be submitted for the FIP Sub-Committee December 2017 meeting. A request for extension of IP approval was submitted.
4. **Ecuador:** Led by IDB. Mission held in September 2016 and another expected in April 2017. A request for extension of IP approval deadline was submitted.
5. **Guatemala:** Led by IDB. Missions held in September 2016, and February 2017. IP expected to be submitted for the FIP Sub-Committee June 2017 meeting.
6. **Guyana:** No updates to report.
7. **Honduras:** Led by WB. In 2016, a Presidential Decree established the Climate Change Presidential Commissioner to oversee all climate change-related activities, including the FIP and PPCR. This scenario created an interference in the original institutional arrangements agreed during the Scoping and First Joint Mission, where the Environment Ministry and INVEST- H where assigned the roles of national focal point and fiduciary implementer of the FIP and PPCR. This is a high level internal discussion, and the Government has committed to inform the World Bank once agreements are reached.
8. **Nepal:** Led by WB. Missions held in October 2016 and February 2017. A request for extension of IP approval deadline was submitted.
9. **Republic of Congo:** Led by WB. A request for extension of IP approval deadline was submitted.
10. **Rwanda:** Led by AfDB. A request for extension of IP approval deadline was submitted.
11. **Uganda:** Led by WB. Mission held in October 2016. IP expected to be submitted for the FIP Sub-Committee June 2017 meeting.
12. **Zambia:** Led by WB. The IP for Zambia will not be ready in time to make the deadlines for submission to the FIP Sub-Committee in June 2017. There have been long delays on the Zambian side processing the grant and other internal processes.

Annex 4: Status of delayed projects

1. **Ghana (IFC) Engaging the Private Sector in REDD+:** Following due diligence, it was deemed unlikely that a project meeting FIP objectives and IFC's investment and E&S criteria would materialize in the near-term. To accelerate the execution of FIP funds in Ghana, IFC has agreed with the Government of Ghana and the World Bank to reprogram the allocation for a potential World Bank operation within the parameters of the FIP Ghana Investment Plan. This proposal will be submitted to the FIP Sub-Committee for approval.
2. **Indonesia (IFC) Strengthening Forest Enterprises to Mitigate Carbon Emissions:** To accelerate the execution of FIP resources in Indonesia and create incentives for private sector investments, IFC is developing an advisory services program that is expected to create the enabling environment and pre-conditions for successful investments to happen. The advisory services program aims to engage with private sector enterprises to address market barriers and validate the viability of business concepts that were identified during the project preparation phase. The program will also work with the World Bank project to provide advisory support to private sector engagement by selected Forest Management Units (KPH). IFC is developing a program proposal and expects to submit a proposal to FIP Sub-Committee for advisory services by June 2017.
3. **Peru (3 projects, IDB) Integrated Forest Landscape Management Along the Main Route Between Tarapoto and Yurimaguas in the Regions of San Martin and Loreto; Strengthening National Forest Governance and Innovation; and Integrated Landscape Management Along the Main Route Between Puerto Maldonado and Iñapari and in the Amaraeri Communal Reserve:** The proposed coordinator of the consulting team had to be replaced due to unexpected circumstances. Finding a suitable replacement with the desired qualifications took longer than expected due to the participation of different ministries and representatives of indigenous federations and regional governments in the Terms of Reference approval and selection process. A new coordinator was finally accepted. Change in government focal points occurred in fall 2016 after country elections. A more efficient execution scheme is currently being coordinated with the Ministry of the Environment to make faster decisions and improve coordination with the Ministry of Economy and Finance. Discussion with the Government, including a mission occurred at the end of January 2017. A timetable has been prepared to aim at the deadlines presented in the FIP Pipeline Management Policy.
4. **Peru (WB) Integrated Land management in Atalaya, Ucayali Region:** The team is currently working on the project preparation and design. A Concept Review meeting is planned to take place by end of May 2017, and decision review by mid-October 2017.
5. **Lao PDR (WB) DGM project:** No agreement has been reached so far between the Government of Laos and the World Bank on formal initiation process for project design.
6. **Mexico (WB) DGM project:** Project will be sent for Sub-Committee approval by April 2017.
7. **Brazil (IDB) Macauba Palm Oil in Silvicultural System:** IDB is considering provision of equity from FIP financing, channeled through a specific purpose vehicle managed by a private equity

fund. MIF/IDB is finalizing internal pre-appraisal process. It is expected to be presented to the FIP Sub-Committee within the deadlines defined by the FIP Management Pipeline Policy.

8. **Mexico (IDB) Guarantee fund for financing low carbon forestry investments:** After the initial counterpart dropped from the project, IDB is engaging with other potential counterparts in Mexico suitable to take the role and implement an alternative financial scheme.

Annex 5: Implementation highlights

- 1. Brazil (WB) Sustainable production in areas previously converted to agricultural use project (under the low carbon emission agriculture plan):** SENAR has intensified its recruitment efforts for training. It has deployed additional people in the regional offices to aid in the mobilization, carried out a radio campaign, and opened inscription to farms with less than four fiscal modules that comply with entrepreneurial requirements. The number of people expressing interest has increased, and recruitment has reached 5,800, exceeding the target for 2016 by 50 percent.
- 2. Brazil (IDB) Forest Information to Support Public and Private Sectors in Management Initiatives:** The Government approval process for setting up a special account to receive FIP funding experienced some delay. The bidding process for services contracted in the context of the project was launched in 2016. It was the first experience the executing agency had had with these kinds of procurement methods. Regular meetings have taken place with the executing entity and IDB, and IDB's procurement specialist has been working very closely with the project leader and execution agency to define and put in place an 'acceleration plan' for execution.
- 3. Burkina Faso (WB) Decentralized Forest and Woodland Management:** The project is about 18 months behind schedule, but is making good progress especially at the strategic level. Partnerships between the FIP and specific government agencies or other ministries—SPCNDD, Decentralization (MATDSI), rural land tenure management (DGFOMR)—have been identified and greater collaboration is being fostered to leverage more action. Regarding the local development component, the local participatory diagnostics in each of the 32 communes has been completed using an innovative methodology ("Territories" from a French research institute, CIRAD). The development of communal REDD+ investment projects aligned with the land use plans, as opposed to sporadic micro-projects, is taking shape.
- 4. Burkina Faso (AfDB) Gazetted Forests Participatory Management Project for REDD+ (PGFC/REDD+):** The project has a performance of 1.5 years of implementation after three years of implementation. An action plan was agreed with the government in March 2016 to reverse the situation and is being executed. The midterm review planned on June 2017 will allow the government and AfDB to take the necessary actions to accelerate the implementation of the project.
- 5. DRC (WB) Improved Forested Landscape Management Project (IFLMP):** The main contracts have been signed with the local Implementing agencies (ALE), and a call for proposals has been launched for the component supporting the private sector. Recruitment of the service provider responsible for strengthening the cookstove sector and supporting the dissemination of cleaner cookstoves is underway. Contract signing is expected to happen in January 2017. The first plantations have been done, and new ones are underway. Following the decision of the steering committee of the National REDD+ Fund (FONAREDD) to allocate additional financing to the project (not to exceed USD 30 million in two tranches) to scale up component 1 of the IFLMP in the Mai-Ndombe District to cover the entire province, the task team has launched the preparation of USD 20 million additional financing to the project.

6. **Ghana (WB) Enhancing Natural Forest and Agroforest Landscapes Project:** Substantial progress was made on advancing three major policy initiatives that are now with higher level approval bodies. These are related to tree tenure and benefit sharing, wood procurement (and the need to facilitate the production and sale of domestic legal timber), and plantation strategy. FIP funds are now ready to assist in follow on implementation trials (pilots), as well as consultation, communication, and outreach required for furthering this work. On the ground, work was initiated with the Community Resource Management Areas (CREMAs) and cocoa farmers. Many cocoa farmers have been registered according to their willingness to work with the project. Training has been provided to a number of cocoa extension agents, and communication and outreach materials (e.g., radio programs) were developed.
7. **Ghana (AfDB) Engaging Local Communities in REDD+/Enhancement of Carbon Stocks:** The implementation of the Climate Smart Cocoa is going on smoothly, the interventions on other agricultural landscapes has be stalled by the inability of the project to engage CSIR, Crop Research Institute and Soil Research Institutes, to source and promote the plausible technologies. Erratic rains experienced in 2016 has adversely affected the pace of implementation of tree planting activities. Disbursement rate expected to reach 50 percent before the end of the year. The midterm review and adjustment of activities will take place on April 2017, which is expected to solve implementation issues related to district and reporting system.
8. **Lao PDR (WB) Scaling-up Participatory Sustainable Forest Management:** The project is making good progress toward its objectives. Its key achievements include the completion of the Forest Management Plan (FMPs) covering 40 of 41 Production Forest Areas (PFAs). Village Livelihood Development (VLD) Grants are beginning to disburse, and the forest landscape approach is beginning to get traction.
9. **Mexico (WB) Forests and Climate Change Project:** Substantial progress can be reported at the component-level, such as for Component 1 Policy Design and Institutional Strengthening, which is focusing on strengthening M&E systems, including the MRV system, establishing a cohort of certified private technical service providers (1,223 technicians have received certification to offer beneficiaries advisory services), and rehabilitating and strengthening CONAFOR field offices.
10. **Mexico (IDB) Financing Low Carbon Strategies in Forest Landscapes:** Following the request of the Executing Entity, Financiera Nacional de Desarrollo, the following new states have been added in the geographical scope of the proposal: Chiapas, Michoacán, Durango, Chihuahua, Guerrero, Veracruz, Puebla y el Estado de México. This enlarged scope will give more flexibility to identify and finance the project pipeline. The process to finalize the technical assistance component is underway, and disbursement is expected in the next trimester.
11. **Mexico (IDB/MIF) Support for Forest Related MSMEs in Ejidos:** After 41 months of implementation and working in the five areas of REDD+ Early Action (Campeche, Quintana Roo, Jalisco, Oaxaca and Yucatán), the project has now supported 47 Forest Community Enterprises of which 16 have received loans. In addition, six local technical service providers have been

strengthened. The project has had an impact on national forest policy thanks to the collaboration with CONAFOR (National Forest Commission). For example, there is now an extended focus on the need for technical assistance. Several knowledge products have been created, among which the most important is the website <http://emfocoydesarrollo.org/> that provides one-stop support, training, and assistance to forest enterprises. On the credit side, the USD 1.8M FIP loan has been fully disbursed mostly for working capital-short term loans (96 percent) in the following products: shade-grown organic coffee, organic chewing gum, honey, and wood.