

CLIMATE INVESTMENT FUNDS

FIP/SC.18/8
May 23, 2017

Meeting of the FIP Sub-Committee
Washington D.C.
Friday, June 9, 2017

Agenda Item 8

REQUESTS FOR PROJECT AND PROGRAM EXTENSIONS AND CHANGES

Proposed Decision

The FIP Sub-Committee, having reviewed the Document FIP/SC.18/8, *Requests for Project and Program Extensions and Changes*, agreed to the following extensions:

- a) *Strengthening Forestry Enterprises to Mitigate Carbon Emissions*, Indonesia (IFC) to [];
- b) *Engaging the Private Sector in REDD+*, Ghana (IBRD) to [];
- c) *Brazil Investment Plan Coordination Project*, Brazil (IBRD) to [];
- d) *Integrated Forest Landscape Management Project in Atalaya, Ucayali*, Peru (IBRD) to [].

[The Sub-Committee decided not to provide any extension to the following projects:]

The Sub-Committee recalls its decision on FIP *Pipeline Management Policy (Jan 2017)*, as a means for effectively managing the pipeline under the FIP. The Sub-Committee notes that no applications for extension have been submitted for the following projects and programs:

- a) *Integrated Forest Landscape Management Along the Main Route Between Tarapoto and Yurimaguas in the Regions of San Martin and Loreto*, Peru (IDB);
- b) *Integrated Landscape Management Along the Main Route Between Puerto Maldonado and Inapari and in the Amarakaeri Communal Reserve*, Peru (IDB);
- c) *Strengthening National Forest Governance and Innovation*, Peru (IDB);
- d) *DGM for Indigenous Peoples and Local Communities*, Lao PDR, (IBRD)
- e) *Guarantee Fund for financing low carbon forestry investments*, Mexico (IDB);
- f) *Macauba Palm Oil in Silvicultural System*, Brazil (IDB).

The Sub Committee underlines that in case these projects and programs are not submitted for approval before September 30, 2017, these projects and programs will be dropped from the FIP pipeline.

Background

1. At its meeting in June 2016, the SCF Sub-Committees expressed concern over slow progress in the implementation of investment plans, projects and related disbursements and requested the CIF Administrative Unit to include detailed information on the reasons for such slow progress in subsequent semi-annual operational reports.
2. The Sub-Committees encouraged the Multilateral Development Banks (MDBs) and the SCF pilot countries to take all possible measures to expedite the implementation of projects and the disbursement of funds. In this context, the SCF Sub-Committees requested the CIF Administrative Unit, working with MDBs and the Trustee, to prepare a pipeline management and cancellation policy for the SCF Programs, taking into account the nature of the SCF projects and programs.
3. On January 18, 2017 the Sub-Committee approved document FIP/SC.17/5/Rev.1, *Pipeline Management Policy (FIP)*, to enhance pipeline management and prioritization of the FIP portfolio. This was to contribute to the effective and efficient oversight of the FIP program by providing the Sub-Committee members and country teams responsible for preparing investment frameworks, with predictability and confidence in the management of the funds.

Key elements of the policy

Pipeline management Prior to Endorsement of Investment Plans

4. The Sub-Committee approved the following procedures to define pipeline management procedures prior to endorsement of investment plans:
 - New pilot countries accepted into the FIP should submit their investment plans for endorsement within a 24-month (2-year) timeframe from the date of acceptance into the SCF, or as directed by the Sub-Committee.
 - Should any of the pilot countries be unable to submit their Investment Plan for endorsement within the two-year period, these countries may request an extension.
5. Requests for extension were submitted for Sub-Committee by 7 country Investment Plans. All of these extension requests were to permit submission of the Investment Plans at the December 2017 Sub-Committee meeting.

| Country | MDB | Date extension requested | Date extension approved |
|------------|------|--------------------------|-------------------------|
| Congo Rep* | IBRD | 04/05/17 | 05/11/17 |
| Ecuador* | IDB | 04/05/17 | 04/28/17 |
| Nepal* | IBRD | 04/20/17 | 05/05/17 |
| Bangladesh | IBRD | 05/18/17 | <i>tbc 06/01/17</i> |
| Cameroon | IBRD | 05/02/17 | 05/18/17 |
| Rwanda | AfDB | 04/12/17 | 05/11/17 |
| Zambia | IBRD | 05/09/17 | 05/23/17 |

(* countries with indicative funding)

6. Requests for extension of the submission date for of Investment Plan were not received from Guyana and Honduras.

Pipeline management after IP endorsement

7. For projects and programs entering the FIP and PPCR program pipelines following the endorsement of the investment plans, the following timeframes and measures were approved by the Sub-Committee:
- Projects and programs must be submitted to the relevant Sub-Committee for funding approval within 24 months of IP or concept endorsement. Alternative submission timeline (in months) may be proposed for specific projects in the endorsed Investment Plan, with a justification for a longer timeframe. Upon endorsement of the IP the approved timelines will apply.
 - This policy will take effect on January, 2017. Existing projects and programs that have already exceeded the 24-month deadline, will be cancelled by September 30, 2017.
 - In exceptional circumstances, the MDBs, in conjunction with the countries may submit to the relevant Sub-Committee, through the CIF Administrative Unit, a request for an extension of the deadline for approval no later than 3 months before the deadline.
 - Existing projects and programs that have already exceeded the 24-month deadline and intending to submit a request for extension, should submit the request no later than one month before the Sub-Committee meeting in June 2017.
 - Projects and programs for which an application for extension is not requested, or whose application is not approved by the Sub-Committee will be dropped from the pipeline.

Requests for extension for Sub-Committee approval were submitted for 3 FIP projects:

| Projects/Program Title | Country* | MDB | Change Request | Page # |
|--|------------------|------|--|--------|
| Strengthening Forestry Enterprises to Mitigate Carbon Emissions | <u>Indonesia</u> | IFC | <ul style="list-style-type: none"> • Extension of Sub-Committee approval deadline | 6 |
| Engaging the Private Sector in REDD+ | <u>Ghana</u> | IBRD | <ul style="list-style-type: none"> • Extension of Sub-Committee approval deadline • Request change of MDB from IFC to IBRD | 9 |
| Integrated Forest Landscape Management Project in Atalaya, Ucayali | <u>Peru</u> | IBRD | <ul style="list-style-type: none"> • Extension of Sub-Committee approval deadline | 14 |

Pipeline management after Sub-Committee approval

8. Following Sub-Committee approval, projects advance to the next stage of the CIF programming cycle and obtain MDB Board approval. The Sub-Committee approved the following procedures to manage the pipeline of FIP at this stage:
- Unless project proposals approved by the relevant Sub-Committee specify different timeframes, MDB Board approval must be obtained within 9 months after Sub-Committee approval for public sector projects. For private sector stand-alone projects or programs (i.e., without sub-projects), 24 months to reach MDB Board approval. For private sector programs with sub-projects, 36 months to reach MDB board approval for all sub-projects.
 - This policy will take effect on January, 2017. Existing projects and programs that have already exceeded the applicable deadline, will be cancelled by September 30, 2017.
 - In exceptional circumstances, the MDBs, in conjunction with the countries may submit to the relevant Sub-Committee, through the CIF Administrative Unit, a request for an extension of the deadline for approval no later than 3 months before the deadline.
 - Projects and programs for which an application for extension is not requested, or whose application is not approved by the Sub-Committee will be dropped from the pipeline.

Requests for extension for MDB Board approval were submitted for 1 FIP project:

| Projects/Program Title | Country* | MDB | Change Request | Page # |
|---|-----------------|------------|--|---------------|
| Brazil Investment Plan Coordination Project | <u>Brazil</u> | IBRD | <ul style="list-style-type: none">• Extension of MDB Board Approval deadline | 17 |

Attachment 1: Strengthening Forestry Enterprises to Mitigate Carbon Emissions

| Template B - Request for an Extension of deadline for Project/Program Approval by the Subcommittee | | | |
|--|---|--|-------------------------------------|
| 1. Country/Region: Indonesia | | 2. CIF Project ID#: | |
| 3. Source of Funding: | FIP | PPCR | SREP |
| 4. Project/Program Title: Strengthening Forestry Enterprises to Mitigate Carbon Emissions | | | |
| 5. Type of CIF Investment: | Public | <u>Private</u> | Mixed |
| 6. Funding Request in million USD equivalent: | <i>Grant:</i> USD 32.5 million for investment project | | <i>Non-Grant:</i> - |
| 7. Implementing MDB(s): IFC | | | |
| 8. National Implementing Agency: Private Sector Companies | | | |
| 9. MDB Focal Point and Project/Program Task Team Leader (TTL): | <i>Headquarters- Focal Point:</i> Joyita Mukherjee | | <i>TTL:</i> Michael Brady |
| 10. Date of Project Approval | Original Approval date: November 2012 [IP] | Proposed extended approval date: July 2018 (projected SC Approval) | |
| 11. Project/Program Description (<i>including proposed objectives and expected outcomes</i>): | | | |
| <p><i>Proposed objectives:</i></p> <ul style="list-style-type: none"> • Promote sustainable forest management leading to emission reduction and protection of forest carbon stocks through a combination of innovative investment services for commercial forestry enterprises; • Strengthen organizational, business, and productive capacities of small, medium and large forestry and wood product enterprises and firms in related sectors; • Develop viable forestry and wood products business models and build multiple revenue sources from forests; • Leverage additional private sector investments in forestry sector and small forest enterprises, engage financial intermediaries, and facilitate access to financial support modalities; • Demonstrate sustainable development co-benefits from investments in forestry (biodiversity; governance; tenure, rights, and access; capacity development); • Create livelihood co-benefits through supply chain, smallholder, community and KPH engagement to strengthen partnerships with forestry firms; promotion of dialogue mechanisms and inclusiveness of local communities. | | | |

Expected outcomes:

- Participating forestry enterprises applying sustainable forest management principles including independent certification;
- Strengthened capacity of both small and large forestry enterprises;
- Leverage of additional investments in forestry and wood product enterprises; increased investments in forestry sector by financial intermediaries;
- Demonstration of potential at scale for other private sector firms to invest in forestry;
- Expected livelihood co-benefits: contributions to local economies by providing livelihoods to people living in the vicinity of forest areas, reductions in wood demand from adjacent natural forests, and enhanced access to non-timber forest products.

12. Update on Project Preparation *(describe in detail activities and consultations conducted during the SPCR preparation process and other relevant information related to finalizing the project design):*

The lead time of the investment project has been longer than previously expected due to challenges in identifying potential client companies that meet the FIP criteria together with the capacity to comply with the full set of IFC's Performance Standards. The progress has been steady, albeit slow, to ensure that there are no compromises on the required due diligence for this work.

Main reasons for the delay in finalizing the project design have been (i) challenges to identify and engage with profitable private sector forestry and wood product enterprises that have robust growth plans and projects to utilize the FIP investment and advisory financing; (ii) organizational changes in the GoI in early 2015 (new Ministry and FIP focal point); and following from the two previous reasons, (iii) longer than expected due diligence process to identify investable projects and sponsors that meet the IFC fiduciary requirements, Social and Environmental Performance Standards, and FIP criteria.

13. Next Steps to Justify Request for an Extension and Ensure Approval by the New Target Date *(describe all activities to be completed during the extension)*

- IFC has now finalized the development of an Advisory Services (AS) project that is expected to create the enabling environment, pre-conditions, and incentives for successful private sector investment phase.
- The AS project aims to engage with private sector enterprises to address market barriers and validate the viability of business concepts that were identified during project preparation phase. The AS project is designed to also collaborate with the World Bank project to provide advisory support to private sector engagement by selected Forest Management Units (KPH).
- IFC expects to submit the Program Proposal for the AS project for approval by the FIP Sub-Committee by June, 2017. The AS project is set to first commence with a client one company selected to represent the supply chain, involving wood sourcing, communities and wood processing.
- Based on successful results, the project will be scaled up with other companies to replicate the approach towards the investment project.

- The technical preparatory work for project identification and discussions with potential clients have advanced recently and IFC has identified a pipeline of several companies with potential to engage in the investment project; however, more time is needed for the companies to sufficiently develop their business plans, after which IFC will be in a position to assess the viability of the projects and their ability to meet IFC's standards for investment.
- Overall, having potential clients identified and having initiated an advisory services engagement with them, should facilitate project identification for investment(s).
- The investment project *work plan* that will be executed during the extension will consist of the following activities with the following *projected timeline*:
 - *May-June 2017:*
Submit Advisory Services Program proposal to the FIP Sub-Committee.
 - *June 2017 onwards:*
Begin implementation of the advisory services project to create the enabling environment, pre-conditions, and incentives for successful private sector investment.
 - *November 2017:*
IFC to take stock on advisory services implementation progress and conduct additional market analysis to identify investment projects that meet FIP objectives and continue business development efforts to build the pipeline.
 - *December to early 2018:*
Develop transactions with potential client companies based on identified opportunities and develop a program proposal to be submitted to the FIP Sub-Committee.
 - *Mid-2018 (June):*
Submit proposed investments to FIP Sub-Committee.

Attachment 2: Engaging the Private Sector in REDD+, Ghana

| Template B - Request for an Extension of deadline for Project/Program Approval by the Subcommittee | | | |
|--|--|---|--|
| 1. Country/Region: GHANA | | 2. CIF Project ID#: | |
| 3. Source of Funding: | FIP ✓ | PPCR | -SREP |
| 4. Project/Program Title: Ghana FIP, Project 3: “Engaging the Private Sector in REDD+” - \$10 million allocated, with IFC as the implementing MDB under the original plan. This requests change of MDB and extension of time by 3 months. | | | |
| 5. Type of CIF Investment: | Public | Private | Mixed ✓ |
| 6. Funding Request in million USD equivalent: | <i>Grant:</i> USD 2.85 million | <i>Non-Grant:</i> US\$ 7 million (concessional finance) | |
| 7. Implementing MDB(s): At FIP Investment Plan approval, November 5, 2012, this private sector component was allocated to IFC of the WBG. The Government and the MDBs now request that MDB responsibility be transferred to the World Bank. [The allocation to this project consisted of US\$ 7 million of concessional finance and US\$ 3 million in grants. Of the grant amount, US\$ 250,000 was allocated for project preparation and US\$ 114,850 was used a market assessment of the role of private sector in plantations, timber processing, cocoa and charcoal. There remains US\$ 7 million of concessional finance and USD 2.88 million in grants to support Ghana’s FIP Program.] | | | |
| 8. National Implementing Agency: Musah Abu-Juam, Technical Director, Forestry Ministry of Lands and Natural Resources P.O. Box M212, Accra, GHANA Tel. (233) 302-672336 Fax (233) 302-666801 | | | |
| 9. MDB Focal Point and Project/Program Task Team Leader (TTL): | <i>Headquarters- Focal Point:</i> Benoit Blarel , Practice Manager, Global Platforms, Environment & Natural Resources Meerim Shakirova , Operations Analyst Forest Investment Program | | <i>TTL:</i> Timothy Brown and Asferachew Abebe |
| 10. Date of Project Approval | Original Approval date: Meeting of the FIP Sub-Committee, Istanbul, Turkey, November 5, 2012 | Proposed extended approval date: December 31, 2017 | |
| 11. Project/Program Description (<i>including proposed objectives and expected outcomes</i>): Project Description In Ghana’s High Forest Zone, the major drivers of deforestation are unsustainable agricultural (cocoa) expansion and illegal and unsustainable logging. These problems are fueled by increasing demand for food, fuel and timber from Ghana’s growing economy and population, as well as demand coming from outside Ghana (particularly cocoa). The effects of deforestation, in addition to the emissions and loss of biodiversity, translate into economic losses to the country. | | | |

Other projects under the Ghana FIP program are already focusing on agricultural drivers of deforestation by working with cocoa farmers and rehabilitating and protecting forest reserves. These are the Enhancing Forest and Agroforest Landscapes (ENFAL) project with the World Bank and the Engaging Local Communities in REDD+ (ELCIR+) project with AfDB. Ghana's Investment Plan noted that engaging the private sector is an important transformation needed to address the drivers of deforestation. In recent years, commodity sectors (including cocoa, timber and oil palm) have shown interest in working throughout the supply chain to achieve economic, environmental and social sustainability.

This project's original objective was to transform the way private sector actors and community enterprises do business in the forest and agriculture sectors to reduce pressure on natural forests, reduce greenhouse gas emissions and promote social, environmental and economic co-benefits. These remain valid objectives. The revised project will focus more narrowly on plantation enterprises, rather than the whole range of land based enterprises and commodities.

Proposed activities:

The proposed project will establish an investment fund and technical assistance program to provide incentive-oriented financing to small scale plantation enterprises, including community based/owned efforts. The project will focus on private sector investment in plantation development, both small and medium scale, primarily located in degraded areas of the HFZ. The original project kept the option to engage with firms anywhere and potentially involved in commodities, tourism, charcoal and other land based activities; the revised project narrows this scope. The project will also not focus on companies that produce or purchase commodities, nor on companies producing or buying emissions reduction credits on the (voluntary) carbon market.

This focus on plantations recognizes the growing interest, the growing economic need, the Government's new plantation policy, and the increasing engagement of FIP ENFAL activities with communities and CREMAs in the HFZ. This change also tightens the focus and reduces the range of specialized technical expertise required of the implementing agencies. The project will focus in technical areas where the MLNR and FC already have a comparative advantage (advising on how to establish and manage plantations). The operational approach will be generally modeled on the Uganda's Sawlog Production Grant Scheme (SPGS), which is further described below.

The technical assistance component will complement the proposed investments by providing know-how and training to firms and communities seeking to become professional timber producing enterprises. The range of activities that could be financed (with low interest loans or grants) include: small-scale and community-based timber plantation establishment and management; small scale and community-based nurseries that provide timber trees, including indigenous species; larger scale enterprises that provide substantial co-benefits in terms of local job creation, learning and dissemination potential; and nursery or timber service-providing enterprises (weeding, thinning, harvest planning, etc.).

Technical assistance activities will focus on advising on tree planting and nurturing techniques, business planning, species selection, mapping and land titling/clearing services, etc. In providing the technical assistance, the project may rely on or build on the experience of organizations that are currently working in this field, such as WWF, Solidaridad, IDH; certification standards such as Utz, FSC, Rainforest Alliance and RSPO; research institutions and certification bodies.

Co-Benefits

Beyond investments in plantation establishment and creating jobs for forest community members, the project will indirectly contribute to knowledge sharing and uptake, increased awareness of sustainable forestry management practices, increased awareness of the role and opportunities for promoting positive private sector contributions to the overall REDD+ effort. In the HFZ, in particular, the project will contribute to reducing pressure on high biodiversity areas. The project justifies public financing because it will generate public goods that would not otherwise be produced with private engagement alone. It aims to catalyze and leverage financing to grow a viable plantation forestry industry that can feed productive downstream processing enterprises.

12. Update on Project Preparation *(describe in detail activities and consultations conducted during the preparation process and other relevant information related to finalizing the project design):*

Status of original plans

Through 2016, the IFC worked diligently with private sector interests to identify bankable projects that met both the FIP objectives and IFC's investment, and social and environmental criteria. Assessments and consultations were conducted but IFC was unable to develop a project with a private sector sponsor, following its business model and due diligence requirements.

In 2014, IFC commissioned a scoping study of private sector forest-related investment opportunities in Ghana. To enter into an investment deal with a private firm, the project would have to be compatible with the FIP objectives and criteria. In addition, IFC reasonably required that projects attain a minimum size for direct investment, with the project proponent contributing a share of the resources, with a technically sound approach based on experience and track record. Based on these criteria, the scoping study identified several direct investment opportunities, mostly in the plantation sector, with some also in wood processing and charcoal. Follow up on these opportunities did not lead to a tangible investment opportunity after two years of effort by IFC.

At the same time, 95 smaller plantation projects were identified that would not qualify for IFC direct investment (lacking access to foreign capital markets and mainly supplying the local market). These smaller projects would have some transformational impact but would incur high transaction costs for small project sizes. IFC also explored reaching these types of firms using an indirect investment model, using a financial intermediary through a commercial bank. An assessment of banks revealed that they were generally not investing in REDD+ activities, preferring shorter-term investments, which would not be suitable for long term forestry investments. Banks would require substantial capacity building to manage and monitor diverse, small scale investment projects in the relevant sectors.

Rationale for change in MDB

Ghana is a leading country on REDD+ and FIP initiatives. Ghana is accessing readiness funds from FCPF, investment funds from FIP and payment for performance funding (in pipeline) from the FCPF Carbon Fund. A new government has been elected and is accelerating effort to address the drivers of environmental degradation and deforestation, and to promote sustainable jobs in the rural sector.

As stated in its original Investment Plan and subsequent progress reports, Ghana wishes to utilize its full FIP allocation toward the intended objectives. Ghana continues to need sources of sustainable timber to supply domestic markets and to meet the construction, housing and furniture needs of a growing economy. Increasing the supply of plantation timber and the conditions to incentivize

private investment in plantation timber is still a valid application of the FIP funds and will help to reduce deforestation driven by illegal timber sourcing. This can be accomplished by linking this component of Ghana's FIP allocation with the ongoing implementation of existing projects.

The Ghana FIP Program is progressing with implementation of two projects, Project # 1, "Enhancing Natural Forest and Agroforestry Landscapes" for US\$ 30 million with World Bank and "Engaging Local Communities in REDD+/ Enhancing Carbon Stocks" for US\$ 10 million with AfDB. By linking the reallocated funds to the ongoing WB project as additional financing, the current momentum can be sustained and increased. Ghana has the systems and procedures in place to utilize these funds effectively, efficiently and quickly with the proposed change of MDB.

Proposed project design (noting changes from original)

The proposed project retains the same rationale, development objective and target beneficiaries. Some aspects will need to be updated to reflect a stronger public sector role in management and allocation of funds. However, some changes will be introduced to ensure greater uptake by smaller-scale operators and to stimulate a wider leverage of private investments.

This project intends to benefit from the learning and success of Uganda's Sawlog Production Grant Scheme (SPGS). SPGS was set up after a change in forest policy (to promote a stronger private sector role in commercial forestry) and had external grant financing assistance from EU and Norway. The SPGS provides technical assistance and financial incentives for small-scale and community-based plantations. The scheme reimburses roughly 50% of the plantation establishment and maintenance costs in staggered payments over the first two years. Payments are conditioned on compliance with seed quality and maintenance/weeding standards. These requirements, plus close monitoring, technical assistance and follow up, helped to meet an unexpectedly large demand for assistance with tree planting at community level – while also screening out operators or enterprises without the necessary skills or willingness to invest own resources.

From 2004 to 2012, SPGS supported more than 300 private forest owners and community associations to establish 47,000 ha of plantations that are now supplying enterprises and rural sector jobs in Uganda. The project continues to gain the support of development partners. The public funding is well justified on the basis of public goods being produced in tandem with the commercial timber operations. These professionally managed forests produce timber more cost competitively compared to illegal logging operations in the forests, thereby reducing forest degradation pressure, and contributing to preservation of both biodiversity and carbon in the landscape. SPGS also boosted confidence of private investors and leveraged private investment. SPGS pioneered the introduction of improved seed, commercialization and the promotion of hybrid clonal planting material, certifying tree nurseries and forest contractors to improve the quality of service delivery and promoting modern silvicultural practices (SPGS, 2014).

Ghana can benefit from all of these types of interventions and outcomes.

13. Next Steps to Justify Request for an Extension and Ensure Approval by the New Target Date
(describe all activities to be completed during the extension)

The project will be prepared as an Additional Financing project linked to the ongoing WB project entitled, "Enhancing Natural Forest and Agroforestry Landscapes" (Ghana FIP Project #1). Because implementation systems, financial management systems, collaboration frameworks, safeguards documents and operational manuals are already in place (and many need some fine tuning), this preparation schedule is somewhat compressed but achievable.

| Description of Activity | Date |
|--|--------------------|
| Prepare concept note for approval by WB management | June 20, 2017 |
| Consult with Ghanaian stakeholders | May June, 2017 |
| Amend and improve existing ENFALP safeguard documents | August 30, 2017 |
| Prepare additional finance project paper for WB QER review | September 15, 2017 |
| Submission of AF Project Paper for FIP SC review | September 15, 2017 |
| Respond to comments and peer reviewers | September 30, 2017 |
| Finalize AF Project Paper for Decision by WB management | October 30, 2017 |
| Negotiate project with GoG | November 30, 2017 |
| Submit project to WB Board | January 30, 2018 |

Attachment 3: Integrated Forest Landscape Management Project in Atalaya, Ucayali, Peru

| Request for an Extension of deadline for Project/Program Approval by the Subcommittee | | | |
|---|--|--|---------------------------------|
| 1. Country/Region: Peru | | 2. CIF Project ID#: | |
| 3. Source of Funding: | FIP \$12.2 million and GoP \$5 million | PPCR | SREP |
| 4. Project/Program Title: Integrated Forest Landscape Management Project in Atalaya, Ucayali | | | |
| 5. Type of CIF Investment: | Public: x | Private | Mixed |
| 6. Funding Request in million USD equivalent: \$12.2 million | <i>Grant: \$5.8 million</i> | | <i>Non-Grant: \$6.4 million</i> |
| 7. Implementing MDB(s): World Bank | | | |
| 8. National Implementing Agency: Ministry of Environment and Natural Resources (MINAM) | | | |
| 9. MDB Focal Point and Project/Program Task Team Leader (TTL): | <i>Headquarters- Focal Point: Benoit Blarel/Meerim Shakirova</i> | | <i>TTL: Angela Armstrong</i> |
| 10. Date of Project Approval: | Original Approval date: October 30, 2015 | Proposed extended approval date: December 30, 2017 | |
| 11. Project/Program (including proposed objectives and expected outcomes): | | | |
| <p>The main objective of Peru's Forest Investment Plan (PIP), which is expected to generate a transformative impact within the next 10-15 years, is to reduce greenhouse gas (GHG) emissions produced by deforestation and forest degradation, and enhance carbon reserves in sustainable forest landscapes, thereby helping to reach the national target of "Declining net emissions to equivalent to zero in the category of Land Use, Land-Use Change and Forestry by 2021." In achieving this objective, the PIP is expected to generate two types of co-benefits: (i) reduce poverty of indigenous communities and other local populations, under a gender equality approach, by increasing income from management of sustainable forest landscapes and productive agroforestry mosaics; and (ii) reduce the loss of biodiversity and maintenance of forest ecosystem services.</p> <p>The project objective is to improve management, tenure security and governance of forests by communities and government agencies in the Atalaya province of the Ucayali region.</p> <p>The project is organized in three components:</p> <p>Component 1 "Strengthening forest tenure rights" is expected to support local efforts to secure forest land ownership and use. More specifically, activities will support the registering of indigenous peoples in selected communities in the National Registry of Native Communities, through the provision of technical, legal, and financial assistance, and the subsequent demarcation and titling process that establishes formal land title for native communities.</p> | | | |

Component 2 “Support forest governance and law enforcement” will strengthen the capacity of local government agencies in improving forest law enforcement and governance.

Component 3 “Sustainable community-based forest management” will help build communities’ technical and administrative capacity in forest management. It will offer training and facilitation support, as well as investments to improve community-based management and promote improved value-adding in forest landscapes.

Component 4 “Project management, monitoring, and evaluation” will ensure sound project management, including fiduciary, safeguards, monitoring and evaluation functions.

12. Update on Project Preparation *(describe in detail activities and consultations conducted during the IP preparation process and other relevant information related to finalizing the project design):*

Project preparation was significantly delayed until the end of 2016 due to bottlenecks experienced between the Ministry of Environment and Natural Resources (MINAM) and the Ministry of Finance (MEF) related to processing multi-sectoral development finance, which proved difficult under the national system for public investments (i.e. *Sistema Nacional de Inversión Pública (SNIP)*). As a result, the processing of the Project Preparation Grant (PPG) did not advance until November 2016.

A change in Government following elections in June 2016, and a subsequent change in MINAM’s administration as well as across government helped to unblock bottlenecks. During the World Bank’s mission in November 2016, agreement was reached between MINAM and MEF to proceed with processing of the PPG.

On December 1, 2016, the Peruvian Congress passed Legislative Decree 1252 by which a new national system of multi-annual programming and investment management was established (i.e. “*Invierte.pe*”), which facilitates and promotes investments and simplifies the previous SNIP process.

On February 23, 2017, Supreme Decree No. 027-2017-EF was published that provides regulation for the National System of Multi-Annual Programming and Investment Management.

With this new investment system in place, the legal agreement for the PPG has been reviewed by the World Bank and MINAM, was submitted for final processing to MEF, and is planned to be signed in May 2017.

In the interim, Terms of Reference have been prepared for the planned preparation activities. As per the applicable process following the national investment system, a so-called project profile needs to be prepared. The procurement process for the preparation of this project profile has been completed. The same firm has been selected as for preparation of such project profiles for the other FIP Projects in Peru, for which the Inter-American Development Bank (IDB) is assigned as the Implementing MDB. This arrangement will ensure close coordination and alignment of the four FIP Project under Peru’s Investment Plan.

Terms of Reference for additional preparation activities are currently under review and expected to commence in June 2017.

A World Bank mission to Peru from May 1-10, 2017 has ensured reengagement with the regional government of Pucallpa, Ucayali, local authorities in Atalaya, as well as representatives of Indigenous Peoples Organizations (in particular AIDSESEP and CONAP) at national, regional, and local level.

13. Next Steps to Justify Request for an Extension and Ensure Approval by the New Target Date
(describe all activities to be completed during the extension)

Project Preparation activities have started after the initial delay described above and are now being fast-tracked. The consultant contract for preparation of the project profile is expected to be completed in August 2017. MINAM has planned for the evaluation and review of viability of the project for August and September 2017. Project preparation will include participatory processes to ensure that key stakeholders are engaged and contributing to all aspects of project design and preparation. To ensure close involvement of Indigenous Peoples in project preparation, a representative from AIDSESEP and CONAP, respectively, is included in the project preparation team as technical advisors. Similarly, representatives from regional government agencies are supporting project preparation.

As per the updated project preparation timeline, the Project is expected to be presented to the FIP SC for approval by latest November/December 2017. As such, only a short extension is requested to accommodate any additional assessments and reviews that may need to be carried out as part of the Bank's due diligence process.

The Project is expected to be presented to the World Bank Board for approval in February 2018 and become effective in March/April 2018.

Attachment 4: Brazil Investment Plan Coordination Project

| Request for an Extension of deadline for Project/Program Approval by the MDB Board | | | |
|--|--|--------------------------------|-------|
| 1. Country/Region: Brazil / Latin America and the Caribbean Region | | 2. CIF Project ID#: | |
| 3. Source of Funding: | FIP US\$1.0 million | PPCR | SREP |
| 4. Project/Program Title: Brazil Investment Plan Coordination Project | | | |
| 5. Type of CIF Investment: | Public X | Private | Mixed |
| 6. Funding Request in million USD equivalent: | <i>Grant:</i> <i>1.0 million</i> | <i>Non-Grant:</i> | |
| 7. Implementing MDB(s): IBRD | | | |
| 8. National Implementing Agency: Ministry of Environment | | | |
| 9. MDB Focal Point and Project/Program Task Team Leader (TTL): | <i>Headquarters- Focal Point:</i> <i>Gerhard Dieterle</i> | <i>TTL:</i> Bernadete Lange | |
| 10. Date of Project/Program approval by Sub-Committee | Date: March 12, 2015 | | |
| 11. Date of Project Approval by MDB Board | Original: January 2016 | Proposed: November 2017 | |
| 12. Project/Program Description (<i>including proposed objectives and expected outcomes</i>): The Brazil Investment Plan (BIP), part of the Forest Invest Program, endorsed by the FIP Subcommittee on May 18, 2012, represents an important step in the implementation of the FIP in Brazil. The BIP seeks to promote sustainable land use and forest management improvement in the Cerrado, the second-largest biome in Brazil and South America, and to contribute toward reducing pressure on the remaining forests, reducing GHG emissions, and increasing carbon dioxide (CO ₂) sequestration. The BIP comprises coordinated actions among three ministries (Ministry of Environment [<i>Ministério do Meio Ambiente</i> , MMA]; Ministry of Science, Technology and Innovation [<i>Ministério da Ciência, Tecnologia e Inovação</i> , MCTI]; and Ministry of Agriculture and Livestock and Food Supply [<i>Ministério da Agricultura, Pecuária e Abastecimento</i> , MAPA]). These actions are focused in building synergies to maximize the impact of a larger set of policies aimed at reducing deforestation in the Cerrado Biome. The BIP covers two thematic areas and includes four interrelated projects, as shown below. | | | |

Theme 1: Management and use of previously anthropized areas, aims to promote sustainable use on privately run farms. Better land use will result in reduced emissions and improved carbon sequestration, and will ease pressures for deforestation on the remaining forests.

Theme 2: Production and Management of Forest Information, aims to generate and make available spatially and temporally consistent environmental information for the biome.

It is important that the BIP projects are conducted under a coordinated approach that ensures a focus on the overall strategic objectives for which each project is accountable. In addition, this coordination will ensure that each project is properly and periodically evaluated and reported to the Brazil Investment Plan - Interministerial Executive Committee (BIP-IEC).

The BIP also proposes coordinated and synergistic actions by different actors in order to improve the sustainability and efficiency of forest resource management and land use in the Cerrado, in particular on private landholdings, which are prominent in this biome.

In addition, complementary contributions to the BIP include a Dedicated Grant Mechanism for Indigenous People and Local Communities (DGM) and a private-sector window specifically designed to promote private-sector investment in Brazil.

Thus, close coordination and collaboration with all projects is considered critical for the successful implementation of Brazil Investment Plan. Therefore, the BIP Coordination Project will provide a platform for knowledge sharing among BIP projects, the Brazil FIP Dedicated Grant Mechanism (DGM), and FIP private-sector projects, and among other programs and projects.

The objective of this Project is to strengthen the Federative Republic of Brazil's capacity in (i) coordinating Brazil Investment Plan (BIP) projects; (ii) supervising, planning, monitoring, evaluating, and reporting on BIP's implementation.

The direct beneficiaries of the BIP's coordination are the government institutions - MMA, MCTI, and MAPA - and all implementing agencies that are part of the plan. In a broader sense, Project actions must contribute to the successful implementation and achievement of the objectives of the BIP's projects, and also benefit their respective audiences and other interested parties (stakeholders).

The activities under the Project would contribute positively to coordination, reporting and evaluation, as well as compatibility among different initiatives, programs and projects aimed at addressing deforestation and forest fires in the Cerrado Biome.

13. Reason/s for Delay in MDB Approval

The FIP Coordination project preparation started in 2014. Nevertheless, Brazil held Presidential elections in 2014 resulting in delays to finalize the preparation of the project. The Brazilian legislation requires senior staff running for office to resign six months before election (federal legislature included). This caused turnover in leadership and decision-making affecting preparation. As a result, the preparation process took more time than initially planned.

The Project Paper was endorsed by the Brazil FIP Committee on November 27, 2014 and submitted for FIP-Subcommittee approval in January 2015. The Project was endorsed by FIP Subcommittee on March 12, 2015.

The appraisal stage was concluded in November 2015 and the project documents, including the proposed Grant Agreement, were submitted to the General's Attorney's Office (PGFN) for clearance.

On December 2015, the General's Attorney's Office (PGFN), who is responsible for approving all International Operations for the Government of Brazil, decided to process the FIP Coordination project simultaneously with the FIP: CAR project, to provide the legal authorization to implement

both projects together. In addition, the current fiscal restrictions that Brazil is facing resulted in huge cuts in the Government's budget, and MMA did not have budget allocated in the National Annual Budget Law (LOA/2017) to cover operation costs to implement FIP Coordination project.

2016 was a time of great change in the social, political, and economic environment in Brazil. After President Rousseff was impeached in August 2016, Vice-President Temer took office for the remainder of the presidential mandate until the end of 2018. The impeachment marked a shift in the political coalition in power, with the Workers' Party (*Partido do Trabalhadores*, PT) moving into opposition after 13 years in government and the opposition Social Democrats (*Partido da Social Democracia Brasileira*, PSDB) entering the government. President Temer took office with a platform of fiscal consolidation and microeconomic reforms to revive the economy.

Within this context, since 2015 the project team was waiting for the authorization to finalize preparation, submit the Project to the Bank's Board for approval and sign the Grant Agreement, since the Brazilian Government was the grant-recipient.

The proposed extension of deadline for Project Approval by the MDB Board is based on the official request from the Ministry of Environment (MMA) dated April 12, 2017, to review the implementation arrangement in order to avoid the continuous fiscal constraints being faced by the MMA.

Therefore, the Project would be carried out by a no-government organization (NGO) with the aim of streamlining procurement process, in close agreement with the primary project manager: MMA. An agreement between the NGO and MMA will commit the parties, in a coordinated manner, to the implementation of joint actions and control mechanisms, according to their responsibilities as set in a Cooperation Agreement.

This implementation arrangement draws on the experience and lessons learned from the pilot Brazil Rural Environmental Cadastre Technical Assistance Project (P126343), funded by the Pilot Program to Conserve the Brazilian Rain Forest (PPG7).

To review the institutional arrangements, financial procedures, and the proposed grant agreement, as well as to submit the project package for the approval by the World Bank Board, an extension is being requested up to November 2017.

14. Next Steps to Justify Request for an Extension and Ensure Approval by the Proposed Target Date (describe all activities to be completed during the extension)

Due to the Government's request to have a NGO implement the Project, the Project documents (Project Paper and Grant Agreement) must be updated to reflect the new proposed institutional arrangement.

The team expects to finalize this revision by September 2017, and submit the final package to the Board in October 2017. The expected Board date is November 30, 2017.