

CLIMATE INVESTMENT FUNDS

FIP/SC.20/3
May 15, 2018

Meeting of the FIP Sub-Committee
Washington D.C.
Thursday, June 7, 2018

Agenda Item 3

FIP SEMI-ANNUAL OPERATIONAL REPORT (SUMMARY)

PROPOSED DECISION

The FIP Sub-Committee reviewed the document, FIP/SC.20/3, FIP Semi-Annual Operational Report, and welcomes the progress that has been made in advancing the work of the FIP in the pilot countries.

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

1 Introduction

1. The Semi-Annual Report (SAR) of the Forest Investment Program (FIP), identifies key strategic issues, highlights key decisions taken inter-sessionally by the FIP Sub-Committee, and provides an update on the status of FIP-funded programs and projects under the endorsed investment plans and related activities. This report also includes projections on future approvals and provides an update on the implementation of projects in the FIP portfolio.
2. This report provides an update of the entire FIP portfolio for the period July 1 to December 31, 2017 (with additional updates to March 31, 2018 on Resource Availability as a measure to facilitate discussion and decision-making during the June 2018 FIP Sub-Committee meeting).

2 Strategic issues

3. The FIP is a USD 753.9 million¹ fund established in 2008 to provide scaled-up financing to help countries address the drivers of deforestation and forest degradation. It started out working in eight countries (Brazil, Burkina Faso, DRC, Ghana, Indonesia, Lao PDR, Mexico, and Peru), and in 2015 it added six new countries (Congo Republic, Cote d'Ivoire, Ecuador, Guatemala, Mozambique, and Nepal), with an indicative envelope of resources of USD 24 million each and nine additional countries with no funding envelope (Bangladesh, Cambodia, Cameroon, Guyana, Honduras, Rwanda, Tunisia, Uganda, and Zambia).
4. Key strategic issues to highlight during this reporting period include 1) the work on long-term administrative costs forecast and funding options to prevent any impact on the pipeline of the six new countries with indicative funding envelopes and 2) the knowledge-related work being implemented in the context of the CIF Evaluation and Learning Initiative and in partnership with the Global Delivery Initiative (GDI) and the World Bank's Development Impact Evaluation (DIME).
5. The importance of resource mobilization is also highlighted, given that the investment plans from the nine unfunded countries have been endorsed. Since the end of 2017, the CIF Administrative Unit and the Secretariat of the Green Climate Fund (GCF) have been discussing the possibility of providing GCF funding for these plans in the short term.

2.1 SCF resource availability

6. At the December 11, 2017 meeting, the Strategic Climate Fund (SCF) Trust Fund Committee, reviewed the Report of the Trustee on the Financial Status of the SCF and noted that the investment income of the SCF Trust Fund is not currently expected to be sufficient to cover the costs of the projected level of Administrative Services by the CIF Administrative Unit,

¹ Including contributions and pledges

MDBs, and the Trustee up to 2028. The Committee requested the CIF Administrative Unit, working in collaboration with the MDBs and the Trustee, to undertake a full analysis to explore possible options for financing administrative expenses, costs reductions, and attribution of administrative expenses amongst the SCF programs. The Committee also decided to pause the approval of any funding within the SCF other than that of project preparation grants, until such time that the Committee had reviewed the analysis requested and decided on a way forward.

7. At the intersessional meeting held on March 8, 2018, the SCF Trust Fund Committee considered the proposals for addressing the shortfall in the SCF Trust Fund set out in the document entitled *Long-term SCF Administrative Costs and Funding Options* developed by the CIF Administrative Unit, the MDBs, and the Trustee. The Committee decided on a means to apportion administrative costs between SCF programs and agreed that reflows from SCF loans may be used to finance the potential shortfall of grant resources to cover administrative costs after they become available in each program. The Committee further agreed that the pause in approval of SCF funding be lifted.
8. More specifically, the SCF Trust Fund Committee agreed to allocate a portion of the available grant resources from each of the SCF programs to finance estimated administrative costs from FY19 to FY28 as follows:
 - USD 11.6 million from the FIP
 - USD 10.6 million from the PPCR
 - USD 31.6 million from the SREP

2.2 Resource availability in the FIP

9. As of March 31, 2018, the FIP has endorsed all expected investment plans with indicative allocated funding. The FIP pipeline still under development includes 23 projects that will require USD 92.1 million in grant resources and USD 129.9 million in non-grant resources (see Annex 1 for the list of pipeline projects). With this expected resource commitment of USD 233.2 million², the FIP has a surplus of USD 17.4 million in non-grant funds and a shortfall of USD 19 million in grants (see Table 1). As the FIP maintains a first-come-first-served approach to resource programming, projects with submission dates for FIP Sub-Committee approval after July 2019 are at risk of falling outside the existing resource envelope.
10. At its intersessional meeting in March 2018, the SCF Trust Fund Committee requested the CIF Administrative Unit, along with the MDBs and the Trustee, to undertake additional analysis of administrative budget building on the scenarios already presented. The CIF Administrative Unit is also exploring the encashment of an outstanding contribution so that it may be used for FIP programming. As these may influence resource availability, the impact on the FIP pipeline would subsequently need to be reconsidered.

² Including USD 221.9 million allocated to projects and an estimated USD 11.2 million in MPIS costs.

11. Based on the decisions of the SCF Trust Fund Committee, the Trustee and the CIF Administrative Unit have updated the resource availability for each of the SCF programs. Table 1 below includes a summary of FIP resources available for commitments, while the details can be found in Annex 2 of the Semi-Annual Report.

Table 1: FIP Resource Availability Schedule Summary – March 2018 (in USD million)

	TOTAL	Capital	Grant
Unrestricted Fund Balance	204.9	119.7	85.3
Future Programming Reserves			
<i>Admin Expenses-Reserve for FY19-28</i>	(11.6)	-	(11.6)
Unrestricted Fund Balance After Reserves (i)	193.3	119.7	73.7
Anticipated Commitments (ii) Program/project funding and MPIS costs	233.2	129.9	103.3
Available Resources (i - ii)	(39.9)	(10.2)	(29.7)
Potential Future Resources (FY18-FY21) (iii)	38.2	27.5	10.7
Pledges	0.3	-	0.3
Release of currency risk reserves	37.9	27.5	10.3
Potential Available Resources (i-ii+iii)	(1.6)	17.4	(19.0)

2.3 Pipeline management update

12. In November 2017, the CIF Administrative Unit launched the CIF Collaboration Hub (CCH) a secure, interactive platform developed to support the CIF portfolio management. It is used by the broad range of internal stakeholders, including Committee members and observers, MDBs, CIF Administrative Unit, and the Trustee. Currently the CCH offers a variety of functions, such as project portfolio information, approval of funding requests, and reporting and analytics data.
13. In accordance to the new deadlines established on the January 2017 Pipeline Management Policy for SCF Programs (FIP), the MDBs, along with the FIP pilot countries, presented the following submissions for approval/ endorsement during this reporting period:
14. Investment plans: All pending investment plans were endorsed during the December 2017 Sub-Committee meeting, except for Honduras (in November 2017 the FIP Sub-Committee granted an extension up to the end of June 2018), and Guyana (the FIP Sub-Committee did not approve the extension request because, as of November 2017, no progress or activities had taken place in relation to the preparation of the investment plan).
15. Four projects (totaling USD 40.4 million) were to be submitted to the FIP Sub-Committee for approval by September 30, 2017. The three project proposals for Peru were submitted by the IDB as one merged project (Forest Investment Program, for USD 36.3 million), while the IDB requested that the Private Sector Set-Aside (PSSA) project in Mexico, Guarantee Fund for Financing Low Carbon Forestry Investments, be removed from the pipeline due to difficulty finding a suitable executing entity to implement the financial instrument proposed in the project concept.

16. Four projects (totaling USD 92.25 million) submitted documents for funding approval by November 30, 2017. Processing for FIP Sub-Committee approval of these projects was paused due to the SCF Trust Fund Committee decision during its December 2017 meeting. The pause was lifted at the March 2018 SCF Trust Fund Committee intersessional meeting, and these projects are currently under review. These include three World Bank projects (Peru: Integrated Land management in Atalaya, Ucayali Region; Brazil: Integrated Landscape Management in the Cerrado Biome; and Ghana: Additional Financing for Ghana Forest Investment Program - Enhancing Natural Forest and Agroforest Landscapes), and one IFC project (Indonesia: Forest Bond).

2.4 Knowledge management highlights

17. The year 2018 marks the 10-year anniversary of the establishment of the CIF, and as such, the CIF Administrative Unit is undertaking several activities related to knowledge management to highlight achievements and promote learning among different stakeholders.
18. The FIP is engaged in ongoing activities related to case studies, including a GDI case study in Ghana; learning partnerships and studies as part of the CIF Evaluation and Learning Initiative; an impact evaluation in Burkina Faso in partnership with DIME; and collaboration with forest knowledge initiatives, such as the World Bank’s Program on Forests (PROFOR).
19. Sections 4.1 and 4.2 of the Semi-Annual Report include detailed information of this initiatives and activities.

3 Status of the FIP

20. Table 2 provides information of the status of the FIP portfolio, which has an endorsed indicative FIP funding of USD 691.7 million.

Table 2: Overview of FIP Portfolio (USD million)³

	Indicative Portfolio Allocation				Approved funding		Disbursement (cumulative)
	TOTAL	IP	DGM	PSSA	Committee	MDB	
FIP Amount (in USD M)	691.7	598.9	75.5	17.3	471.3	415.5	152.5
Number of projects	58	40	15	3	35	32	27

21. Two projects were withdrawn from the project pipeline:

- Mexico: Guarantee Fund for financing low carbon forestry investments (IDB, USD 3.0 million loan) IDB had difficulty finding a suitable executing entity to implement the financial instrument proposed in the project concept.
- Lao PDR: DGM for Indigenous Peoples and Local Communities (WB, USD 4.5 million)

³ Includes PPG and, for disbursements, also IPPGs. Disbursed funding includes USD 9.1 million for PPGs and USD 3.8 million for IPPGs.

grant). The Government of Lao PDR decided not to proceed with this proposal.

22. During this reporting period the FIP Sub-Committee endorsed the investment plans for seven FIP pilot countries. This included three countries with an indicative allocation of USD 24 million each (Republic of Congo, Ecuador, and Nepal), and four countries with no allocation (Bangladesh, Cameroon, Rwanda, and Zambia).
23. Four projects were approved by the FIP Sub-Committee for a total of USD 58.8 million, and three projects were approved by their respective MDB Boards for a total of USD 10 million.
24. Twenty-seven MDB-approved projects are currently under implementation and disbursing FIP funds. These include 23 from the public sector and four from the private sector.
25. As of December 2017, five projects in the pipeline have exceeded the agreed benchmark of 24 months or more without receiving FIP Sub-Committee approval. They include one project from the DGM (global), one private sector project from IFC, and three World Bank projects.
26. Four of these projects (USD 91.44 million) were submitted for approval in November 2017 but were subjected to the SCF Trust Fund Committee decision to pause approvals and are currently under review. The only pending project is the second tranche of the Global DGM project (USD 3 million), which will be submitted for approval by June 2019.
27. Cumulative disbursements by MDBs total USD 152.5 million, including USD 3.8 million disbursed from Investment Plan Preparation Grants (IPPGs). Project disbursements total USD 148.8 million⁴ corresponding to 27 projects under implementation, including Project Preparation Grants (PPGs).
28. Based on the expected approval dates received from MDBs, the approval rates will increase considerably in the next fiscal year to reach 85 percent of the funds approved by the FIP Sub-Committee and 69 percent approved by the MDBs.
29. During this reporting period, the FIP Sub-Committee endorsed investment plans of Guatemala (USD 24 million⁵), Cambodia, and Uganda (both unfunded), and approved projects for a total of USD 30 million. In addition, five projects were approved by their respective MDB boards for a total of USD 40 million.
30. The FIP portfolio's maturation is reflected in the continued increase in the disbursement ratio, which has doubled since the previous fiscal year to reach 30 percent of the MDB-approved funding (USD 121.1 million).

⁴ USD 139.7 million disbursed for projects under implementation, and USD 9.1 million disbursed for PPGs.

⁵ And an additional USD 4.5 million for the national DGM project.