

CLIMATE INVESTMENT FUNDS

August 17, 2015

PROPOSAL FOR ALLOCATION OF RESOURCES TO THE NEW FIP PILOT COUNTRIES

INTRODUCTION

1. In May 2015, the FIP Sub-Committee approved the selection of six new pilot countries (Congo Republic, Cote d'Ivoire, Ecuador, Guatemala, Mozambique and Nepal) and agreed that a provision of up to USD 250,000 may be provided to each of these new pilot countries as a preparation grant to enable them to take a leadership role in working with the MDBs to develop their full investment plan. The Sub-Committee further requested the CIF Administrative Unit, in collaboration with the MDBs, to prepare for consideration by June 15, 2015, a proposal for allocation of resources to these six FIP pilot countries according to the process and criteria used in 2010 for the original eight pilot countries.
2. The Sub-Committee agreed that up to USD 145 million be made available to the six new pilot countries to fund a number of the project concepts identified under their investment plans. An additional up to USD 30 million in grant financing would also be made available for the implementation of the DGM (including the global and national components). This proposal has been prepared in response to the Sub-Committee's request and in the context of the expected availability of resources as described above.

PROPOSED SCHEMES FOR ALLOCATING RESOURCES TO NEW FIP PILOT COUNTRIES

3. The range of resources allocated for the existing pilot countries is of USD 30-70 million, with an average allocation of USD 50 million. The lower range of allocations was meant to be the minimum amount necessary to catalyze transformational and scalable change within a country's forestry sector; it was therefore suggested not to allocate less than USD 30 million to a FIP pilot country. However, in the context of the expected availability of resources, an average allocation of USD 24 million per new FIP pilot country is recommended, noting that this indicative allocation is below the allocation provided to the eight existing FIP pilot countries.
4. At its meeting in May 2015, the FIP Sub-Committee requested the CIF AU, in collaboration with the MDBs, to prepare a proposal for allocation of resources to these six FIP pilot countries according to the process and criteria used in 2010 for the original eight pilot countries.
5. The indicators previously applied to guide the allocation of resources to the FIP countries consisted of the following:
 - Mitigation potential (weight factor 2)
 - Biodiversity potential
 - Absorptive capacity
 - Development benefits potential
6. Data for the above four sets of indicators (roughly in accordance with the data collected in the first round of allocations) for the six new pilot countries were collected based on

the *Report of the Expert Group to the FIP Sub-Committee on the selection of new pilot countries*¹, and a ranking was conducted, by the CIF AU in consultation with the MDBs, using a relative scoring method. With the ranking and the total amount of resources available (USD 145 million) for the six new FIP pilot countries, two ranges of allocations could be provided. These ranges include providing resources: i) up to USD 33 million for the first three; and ii) up to USD 15 million to each of the three bottom ranked countries.

7. Based on the experience of implementing FIP investment plans in the existing eight FIP pilot countries, these small amounts could prove ineffective at realizing transformational change within a country's forestry sector. It is therefore proposed that no less than USD 24 million be provided for each new pilot country. The new pilot countries are encouraged to prepare investment plans that exceed the FIP funding envelope with the understanding that these pilot countries will actively seek resources from other bilateral or multilateral sources.

PROPOSED DISTRIBUTION OF GRANT AND LOAN RESOURCES

8. As described in the *FIP Investment Criteria and Financing Modalities*², the country financial and macro-economic circumstances differ in the selected pilot countries. Given the limited grant resources available in the FIP one approach in terms of allocating grant resources could be to rely on the countries' risk of debt distress based on the joint IMF-World Bank debt sustainability framework (DSF) for low-income countries. The IDA grant framework then translates these debt distress risk ratings into eligibility for receiving IDA grants. Under this framework, IDA-only, non-gap countries are eligible to receive IDA grants. If we were to apply the DSF principles to the allocation of grant resources to the new FIP pilot countries, only Mozambique would be eligible to receive grants; all other new pilot countries would receive their full allocation in the form of loans³.
9. On the other hand the experience by the countries and MDBs show the importance of providing at least a portion of the country allocation in the form of grant resources in order to catalyze transformational change by, for example, creating proper enabling environments by strengthening forest governance, ensuring lessons sharing and knowledge management, and properly monitoring forest resources. Therefore it is proposed that all countries receive a mix of grant and loan resources within the USD 24 million allocation per country, while ensuring that countries are not receiving loan resources at a level that would be inconsistent with the DSF principles.

¹http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_14_5_Report_of_the_Expert_Group_to_the_FIP_Sub_Committee_on_selection_of_new_pilot_countries.pdf

²http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_Investment_Criteria_and_Financing Modalities_final.pdf

³ Note that of the new pilot countries, only Congo Republic, Cote d'Ivoire, Mozambique and Nepal are eligible for IDA funding. Mozambique and Cote d'Ivoire are at medium risk of debt distress.

10. It is also proposed that the new pilot countries may wish to seek additional grant resources from the FIP beyond the minimum indicative grant allocation within the USD 24 million funding envelope on a competitive basis with other FIP pilot countries.
11. Based on these factors, the CIF AU in consultations with the MDBs, recommends the following indicative allocation of grants⁴ and loans be pursued:

Table 1: Proposed allocation of grant and loan resources⁵

	Grants (USD M)	Loans (USD M)	Total (USD M)
Mozambique	\$10.8	\$13.2	\$24
Côte d'Ivoire	\$8.2	\$15.8	\$24
Congo Republic	\$6.1	\$17.9	\$24
Nepal	\$6.1	\$17.9	\$24
Guatemala	\$3.15	\$20.85	\$24
Ecuador	\$3.15	\$20.85	\$24

12. Finally, it is proposed that the terms followed for lending follow those agreed upon in the *FIP Investment Criteria and Financing Modalities*⁶:

Table 2: Previously Proposed Public Sector FIP Loan Terms

	Maturity	Grace Period	Principal Repayments Year 11-20	Principal Repayments Year 20-40	FY Service Charge	Grant Element
FIP Loan	40	10	2%	4%	0.25%	75%

PROPOSED PROCESS FOR INVESTMENT PLAN ENDORSEMENT AND PIPELINE ENTRY

Endorsement of Investment Plans

13. The new pilot countries should prepare investment plans that exceed the FIP funding envelope with the understanding that the investment plans to be developed for the new

⁴ Grant amount shown here is a minimum allocation, and the country may increase this grant amount on a competitive basis with other FIP countries.

⁵ Note again that the grant amount shown here is a minimum allocation, and the country may increase this grant amount on a competitive basis with other FIP countries within the USD 24 million funding envelope.

⁶ *FIP Investment Criteria and Financing Modalities* (June 29, 2010):

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_Investment_Criteria_and_Financing_Modalities_final.pdf

pilot countries may consist of two phases, with phase I to be implemented with FIP funding up to the amount of the indicative envelope as proposed above and phase II to be potentially financed by a variety of sources of climate finance.

14. The six new pilot countries have a two year period within which to submit their investment plans for endorsement. Should any of the six new pilot countries not be able to submit their investment plans for endorsement within the two year period, the Sub-Committee agreed that such countries will be replaced by one or more of the additional 9 countries⁷ which have been given access to grants for the preparation of their Investment Plans, based on their ranking recommended by the Expert Group.

Pipeline Entry

15. Once an investment plan from a new pilot country is endorsed, the projects and programs therein would be allowed to enter the single FIP pipeline up to USD 24 million that has been approved to be made available to each of the six new pilot countries.

INDEPENDENT EXPERT GROUP SUPPORT FOR NEW COUNTRIES INVESTMENT PLAN PREPARATION

16. In May 2015, the FIP Sub-Committee agreed on the need of an independent expert group to offer support to all 15 countries, if they so request, in the form of periodic review and feedback during the investment plan preparation process.
17. The Sub-Committee further requested the CIF Administrative Unit to submit a proposal for a new process for expert review and feedback, and the composition of such expert group based on criteria of regional and gender balance, a balanced representation of experts from developed and developing countries and technical expertise for approval by mail.
18. The proposal for this process of expert review of investment plans, including the composition of the expert group, will be presented to the FIP Sub-Committee for approval by mail.

PROPOSED ALLOCATION FOR THE DEDICATED GRANT MECHANISM FOR INDIGENOUS PEOPLES AND LOCAL COMMUNITIES (DGM) GLOBAL AND NATIONAL COMPONENTS

19. In May 2015, the FIP Sub-Committee agreed to make available USD 30 million in grant financing for the implementation of the DGM (including the global and national component) in the new FIP pilot countries.

⁷ These are, in order of ranking recommended by the FIP Expert Group: Tunisia, Bangladesh, Zambia, Cambodia, Cameroon, Guyana, Honduras, Rwanda, and Uganda

20. Given that the DGM is led by Indigenous Peoples and Local Communities, the funding envelope of USD 30 million could be allocated in accordance with the Design for the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities to be Established under the Forest Investment Program⁸, for the global component and national components. The allocations would be proposed by the DGM Global Steering Committee at the upcoming DGM Global Steering Committee meeting, which took place in Bali, Indonesia on July 25-27, 2015. The funding envelopes will be presented to the FIP Sub-Committee for endorsement by mail according to the Global Steering Committee's proposal.
21. In line with the *Design for the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities to be established under the Forest Investment Program*⁹, the Global Component could receive up to 10% (or USD 3 million) of the newly allocated resources to the DGM.
22. The FIP Sub-Committee will then be requested to approve the funding envelopes for the DGM when the project documents are submitted for approval. The project documents will be prepared by the MDBs in collaboration with the indigenous peoples groups and local communities that participated in the design of the DGM.

⁸Design for the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities to be Established under the FIP (November 2011): http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_Design_Proposal_DGM_for_IPs_and_%20LC_FINAL_November2011.pdf

⁹Design for the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities to be Established under the FIP (November 2011): http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_Design_Proposal_DGM_for_IPs_and_%20LC_FINAL_November2011.pdf