

CLIMATE INVESTMENT FUNDS

June 22, 2009

**DESIGN DOCUMENT FOR THE FOREST INVESTMENT PROGRAM, A
TARGETED PROGRAM UNDER THE SCF TRUST FUND**

I. BACKGROUND

1. There is increasing consensus that addressing climate change is central to the sustainable development, economic growth and poverty reduction agenda. Increasing the resilience to climate change needs to combine both mitigation and adaptation measures. A delay in reducing greenhouse gas (GHG) emissions would significantly constrain opportunities to achieve lower stabilization levels and is likely to increase the risk of more severe climate change impacts. Climate change impacts have the potential to reverse hard-earned development gains and progress towards achieving the Millennium Development Goals.

2. Deforestation and forest degradation are the second leading cause of global warming. They account for approximately 18% of global greenhouse gas (GHG) emissions and over a third of emissions from developing countries. Although there remain divergent opinions as to how deforestation and forest degradation should be included in any future climate change regime, there is an emerging consensus that this issue must be effectively addressed. Several reports indicate that tackling forest loss is a critical activity in achieving stabilization of greenhouse gas concentrations in the atmosphere at a level that avoids the worst effects of climate change.

3. A recent 2007 UNFCCC study of investment and financial flows for forestry, reported that additional global investment and financial flows are needed to address the mitigation potential of forest-related measures. Additionally, while the direct and indirect drivers of deforestation and degradation are well known, there is limited knowledge regarding the relative effectiveness of alternative approaches to reversing those drivers under different national circumstances. Despite several decades of investment in efforts to reduce deforestation and degradation, there remain few examples of rigorous impact assessment, monitoring, and evaluation that would enable specific outcomes to be associated with specific interventions. There is thus an urgent need for the design of new investments in improved forest management to incorporate an explicit learning agenda to close this knowledge gap.

4. The Bali Action Plan calls for: “consideration of policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.” Following up on this, there are expectations that a forest mechanism under the UNFCCC will potentially be established at COP 15 in Copenhagen, to ensure long term incentives to facilitate forest related climate change mitigation in developing countries.

5. Significant multilateral efforts to prepare developing countries for large scale efforts to reduce emissions from deforestation and forest degradation (REDD¹) are underway, first and foremost through the World Bank facilitated Forest Carbon Partnership Facility (FCPF) and the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD Programme). These and other efforts, including national and bilateral programs in some developing countries, are expected to identify large scale investment needs that will be prerequisites for the success of REDD activities on a national and global level.

6. Agenda 21 adopted at the United Nations Conference on Environment and Development (UNCED) recognized the need to strengthen forest-related national institutions, to enhance the scope and effectiveness of activities of the management, conservation and sustainable development of forests, and to effectively ensure the sustainable utilization and production of forests' goods and services in both developed and developing countries. The Millennium Development Goals, the Johannesburg Declaration on Sustainable Development and the Plan of Implementation of the World Summit on Sustainable Development all recognized the critical role of the sustainable management of forests. It is also recognized that the United Nations General Assembly has adopted the United Nations Declaration on the Rights of Indigenous Peoples. A significant number of international and regional agreements, organizations and agencies are at the core of the forest financing architecture, with programs and projects implemented at the sub-national, national, regional and international levels. Many such programs and projects will contribute to the context and foundation for REDD initiatives by facilitating the readiness of countries to participate in REDD, including their ability to address the drivers of deforestation and forest degradation and to enhance the sustainable management of forests. Key organizations include Multilateral Development Banks (MDBs), UN, members of the Collaborative Partnership on Forests (CPF), bilateral aid programs, international NGOs, philanthropic organizations and the private sector.

7. The Strategic Climate Fund (SCF) was established to provide financing to pilot new development approaches or to scale-up activities aimed at a specific climate change challenge or sectoral response through targeted programs. An important objective of the SCF is to maximize co-benefits of sustainable development, particularly in relation to the conservation of biodiversity, natural resources, ecosystem services and ecological processes. A Forest Investment Program (FIP) is to be established as a targeted program under the SCF to catalyze policies and measures and mobilize significantly increased funds to facilitate the reduction of deforestation and of forest degradation and promote improved sustainable management of forests, leading to emissions reductions and the protection of forest carbon stocks.² The FIP would not in itself provide the incentives presently necessary to significantly reduce forest related GHG emissions, but would

¹ For purposes of the Forest Investment Program, REDD means REDD+ and should be construed to include activities consistent with paragraphs 1 (b) (iii) of the Bali Action Plan and modified, as necessary, to be consistent with the decisions taken by the Conference of the Parties to the UNFCCC.

² Governance Framework for the Strategic Climate Fund, paragraph 10(b).

enable pilot countries to leverage such incentives if established under a UNFCCC forest mechanism.

8. Under the SCF the MDBs are to mobilize new and additional financing for adaptation and mitigation programs to address climate change that are country-led and designed to support sustainable development and poverty reduction. Activities financed by the FIP should be integrated into country-owned development strategies, consistent with the Paris Declaration and bearing in mind the Monterrey Consensus of the International Conference on Financing for Development.

9. The FIP should draw upon the IPCC and the IPCC Good Practice Guidance for agreed definitions and terms related to forests and climate change while recognizing the evolving vocabulary within the UNFCCC process.

II. OBJECTIVES, PURPOSE AND SCOPE OF THE FIP

10. The main purpose of the FIP is to support developing countries' REDD-efforts, providing up-front bridge financing for readiness reforms and public and private investments identified through national REDD readiness strategy building efforts, while taking into account opportunities to help them adapt to the impacts of climate change on forests and to contribute to multiple benefits such as biodiversity conservation, protection of the rights of indigenous peoples and local communities³, poverty reduction and rural livelihoods enhancements. The FIP will finance efforts to address the underlying causes of deforestation and forest degradation and to overcome barriers that have hindered past efforts to do so.

11. The FIP will be designed to achieve four specific objectives:

- a) To initiate and facilitate steps towards transformational change in developing countries forest related policies and practices, through:
 - (i) serving as a vehicle to finance investments and related capacity building necessary for the implementation of policies and measures that emerge from inclusive multi-stakeholder REDD planning processes at the national level;
 - (ii) strengthening cross-sectoral ownership to scale up implementation of REDD strategies at the national and local levels;
 - (iii) addressing key direct and underlying drivers of deforestation and forest degradation;
 - (iv) supporting change of a nature and scope necessary to help significantly shift national forest and land use development paths;
 - (v) linking the sustainable management of forests and low carbon development;

³ For the purpose of the FIP "indigenous peoples and local communities" includes tribal communities and implies equal emphasis on the rights of men and women.

- (vi) facilitating scaled-up private investment in alternative livelihoods for forest dependent communities that over time generate their own value;
 - (vii) reinforcing ongoing efforts towards conservation and sustainable use of forests; and
 - (viii) improving forest law enforcement and governance, including forest laws and policy, land tenure administration, monitoring and verification capability, and transparency and accountability.
- b) To pilot replicable models to generate understanding and learning of the links between the implementation of forest-related investments, policies and measures and long-term emission reductions and conservation, sustainable management of forests and the enhancement of forest carbon stocks in developing countries. By committing to apply a priori and ex post impact assessment of programs and projects, the FIP will ensure that the outcomes and effectiveness of FIP-supported interventions in reducing deforestation and forest degradation can be measured;
- c) To facilitate the leveraging of additional financial resources for REDD, through a possible UNFCCC forest mechanism, leading to an effective and sustained reduction of deforestation and forest degradation, thereby enhancing the sustainable management of forests; and
- d) To provide valuable experience and feedback in the context of the UNFCCC deliberations on REDD.

12. To seek to achieve the objectives in paragraph 11, the FIP will support and promote, *inter alia*, investments in the following areas:

- a) **Institutional capacity, forest governance and information** such as: implementation of systems for forest monitoring, information management and inventory; support for legal, financial and institutional development including forest law enforcement, cadastral mapping and land tenure reform; removal of perverse incentives favoring deforestation and degradation; cross-sectoral and landscape based planning exercises; transfer of environmentally sound technology; and building capacities of indigenous peoples and local communities;
- b) **Investments in forest mitigation measures, including forest ecosystem services** such as: forest conservation; promotion of payments for environmental services and other equitable benefit-sharing arrangements; restoration and sustainable management of degraded forests and landscapes; afforestation and reforestation on previously deforested land; restructuring of forest industries and promotion of company-community partnerships; forest protection measures; improved land management practices; and promotion of forest and chain of custody certification;

- c) **Investments outside the forest sector necessary to reduce the pressure on forests** such as: alternative livelihood and poverty reduction opportunities; alternative energy programs; agricultural investments in the context of rationalized land-use planning; and agricultural intensification including agro-forestry.

III. FIP PRINCIPLES

13. The principles set out in the *Governance Framework of the Strategic Climate Fund* (SCF) will apply to the FIP. In addition to the general SCF principles the following principles will apply to the FIP:

- a) **National ownership and national strategies.** FIP pilot programs should be country-led and –owned, should build on, enhance and strengthen existing nationally prioritized REDD efforts, and should respect national sovereignty;
- b) **Contribution to sustainable development.** The FIP should contribute to the livelihoods and human development of forest dependent communities, including indigenous peoples and local communities, and should generate benefits to sustain biodiversity and ecosystem services;
- c) **Promotion of measurable outcomes and results-based support.** The FIP should be results-based over time, and should promote measurable outcomes with regard to the effectiveness of FIP investments on REDD, improvements in forest governance, livelihoods, climate resilience, biodiversity and other forest benefits. Transparent performance measures and procedures for performance assessment should be part of the project design and should serve as a basis for course correction during implementation in close collaboration with the relevant actors at the national or regional level;
- d) **Coordination with other REDD efforts.** The FIP should complement, be coordinated with, and cooperate closely with other REDD demonstration and implementation initiatives and ongoing REDD efforts, such as FCPF and the UN-REDD Programme, based on their comparative advantages. Where applicable the FIP should build on the “readiness work” funded by FCPF, the UN-REDD Programme and other initiatives and should generate lessons for, and be informed by, other REDD initiatives on how to achieve scale and transformational impact in the implementation of REDD activities;
- e) **Cooperation with other actors and processes.** The FIP should complement the forest-related aims and objectives of other global environmental conventions and processes, such as the United Nations system, the Convention on Biological Diversity, the UN Convention to Combat Desertification, the Non-Legally Binding Instrument on all Types of Forests of the UNFF, and the International Tropical Timber Agreement. It should cooperate closely with other international/bilateral agencies and partnerships, such as the CPF, and

with other relevant stakeholders, including indigenous peoples and local communities, civil society organizations, and the private sector;

- f) **Early, integrated and consistent learning efforts.** Learning opportunities should be integrated into FIP programming from the start, including, where applicable, identification of national or regional pilot program approaches with significant potential for replication, and building in mechanisms for learning lessons from both successes and failures in collaboration with relevant stakeholders. The FIP should proactively communicate these lessons to UNFCCC and other relevant initiatives. The FIP should also seek to incorporate into its activities lessons learned from other relevant initiatives.

IV. COUNTRY ELIGIBILITY

14. Country eligibility of the FIP will be based on:

- a) Official Development Assistance (ODA)-eligibility (according to the Organization for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) guidelines);
- b) An active MDB country program. For this purpose, an “active” program means where an MDB has a lending program and/or on-going policy dialogue with the country.

V. CRITERIA FOR SELECTION OF COUNTRY OR REGIONAL PILOTS

15. Transformational impact through a few programs should be prioritized over limited impact in many programs. The selection of country or regional pilots should be based on the following criteria:

- a) Potential to lead to significantly reduced greenhouse gas emissions from deforestation and forest degradation or lead to further efforts to conserve, sustainably manage or enhance forest carbon stocks whilst protecting biodiversity and supporting rural livelihoods;
- b) Potential to contribute to FIP objectives (see “Section II: Objectives, Purpose and Scope of FIP”) and adherence to FIP principles (see “Section III: FIP Principles”);
- c) Country preparedness and ability – institutional and otherwise – to undertake REDD initiatives and to address key direct and underlying drivers of deforestation and forest degradation, taking into account government efforts to date and government willingness to move to a strategic approach to REDD and to integrate the role of forests into national sustainable development;

- d) Country distribution across regions and biomes, ensuring that pilots generate lessons on how to go to scale with respect to: (i) immediate action to curb high rates of deforestation and forest degradation; (ii) conservation of existing forest carbon stocks within primary forests (high forest, low deforestation countries); (iii) enhancement of forest carbon stocks on degraded lands; and (iv) building effective capacities for sustainable management of forests.

VI. CRITERIA FOR FIP INVESTMENT STRATEGIES, PROGRAMS AND PROJECTS

16. The FIP will use the following criteria and the indicators listed in Annex II to this document to review investment strategies, programs and projects and to prioritize programs or projects, with a view to maximizing the transformational impact of FIP resources:

- a) **Climate change mitigation potential.** FIP investment strategies, programs and projects should lead to significant reductions in deforestation and forest degradation and should promote policies and measures for improved sustainable management of forests that lead to emissions reductions and conservation and enhancement of forest carbon stocks;
- b) **Consistency with FIP objectives and principles.** FIP investment strategies, programs and projects should demonstrably contribute to FIP objectives and adhere to FIP principles;
- c) **Drivers of deforestation and forest degradation.** FIP investment strategies, programs and projects should assess and address the key direct and underlying drivers of deforestation and forest degradation within and outside the forest sector, avoid perverse incentives and ensure a holistic and inclusive national approach to REDD;
- d) **Inclusive processes and participation of all important stakeholders, including indigenous peoples and local communities.** Consistent with relevant international instruments, obligations and domestic laws, FIP investment strategies, programs and projects at the country or regional level should be designed and implemented under a process of public consultation, with full and effective participation of all relevant stakeholders on matters that affect their distinctive rights, including in particular groups that historically have tended to be marginalized such as indigenous peoples, local communities and women;

FIP financed activities should, moreover, be consistent with, and/or complement, national sustainable development plans and be based upon broad community support and effective collaboration between indigenous peoples and local communities, government ministries, private sector and financial institutions in planning and implementing investment strategies. FIP should

also seek to engage other major stakeholders such as major groups identified by Agenda 21.

The guidelines presented in Annex III to this document should be followed to facilitate the full and effective participation of indigenous peoples and local communities likely to be affected by a proposed strategy, program or project in a process of public consultation.

- e) **Demonstration impact.** FIP investment strategies, programs and projects should support replicable national or regional pilot programs in order to demonstrate how to scale up public, private and other resources and activities so as to achieve transformational change;
- f) **Forest-related governance.** FIP investment strategies, programs and projects should capitalize on the lessons learned concerning inclusive and effective improvements in governance and enhancement of law enforcement in other environmental sectors. FIP investments should support such improvements as an integral part of necessary measures and policies to ensure forest related climate change outcomes. Forest governance criteria and indicators should be integrated into project design as well as into performance assessments to ensure measurable outcomes;
- g) **Safeguarding the integrity of natural forests.** Consistent with its objectives, the FIP should safeguard natural forests and should not support the conversion, deforestation or degradation of such forests, *inter alia*, through industrial logging, conversion of natural forests to tree plantations or other large-scale agricultural conversion. In particular, the FIP should safeguard high conservation value forests. Special consideration should be given to the national circumstances, including development needs of countries with high forests cover and low deforestation rates;
- h) **Partnership with private sector.** FIP investment strategies, programs and projects should develop and implement models for working with, and leveraging resources from the private sector, including financial institutions, in effective implementation of REDD investment strategies, programs and projects;
- i) **Economic and financial viability:** FIP investment strategies, programs and projects should catalyze self/sustaining financially profitable models for REDD at scale without the need for continuing subsidies;
- j) **Capacity building.** FIP investment strategies, programs and projects should build local and national implementation capacity and institutions.

VII. FIP SUB-COMMITTEE

17. Consistent with the SCF Governance Framework, the SCF Trust Fund Committee will establish a Sub-Committee for the FIP (FIP S-C) to oversee the operations and activities of the Pilot Program.

18. The FIP-SC should consist of:

- a) up to six representatives from contributor countries to the FIP, identified through a consultation among such contributors, and at least one of which should be a member of the SCF Trust Fund Committee;
- b) a matching number of representatives from eligible recipient countries to the FIP, selected on a regional basis and identified through consultations among such countries, at least one of which should be a Member of the SCF Trust Fund Committee. For this purpose, an eligible recipient country means any country which is eligible under Section IV above; provided, however, to the extent that any country is selected as a pilot country for the FIP at the time of the selection of the representatives, such country shall be given priority to represent eligible recipient countries under this paragraph.

19. All pilot countries under the program, members of the MDB Committee and the Trustee may attend the FIP-SC as active observers.

20. The FIP-SC should invite as active observers:

- a) representatives of the FCPF secretariat, the Global Environment Facility, UNFCCC and the UN-REDD technical secretariat; and
- b) the following representatives to be identified through an open and inclusive self-selection process:
 - i. 2 civil society representatives;
 - ii. 2 indigenous peoples representatives; and
 - iii. 2 private sector representatives.

21. In addition to the 6 active observers listed above, each constituency identified in subparagraph 20(b) may select two alternates who may accompany the constituency representatives in the meeting room during meetings of the Sub-Committee. Recognizing the special interests and needs of indigenous peoples, the CIF Administrative Unit should finance, in addition to the financing provided for constituency representatives from developing countries listed in subparagraph 20(b), the travel and subsistence of the alternates from indigenous peoples.

22. Decision-making will be by consensus of the FIP-SC members in accordance with the rules of procedure for the SCF Trust Fund Committee, which will apply *mutatis mutandis* to the FIP-SC. Recognizing that a participatory, inclusive, and transparent process will enhance the quality of FIP activities, the FIP-SC should seek in its deliberations to take into account active observers' views and concerns. The FIP-SC should invite their participation as active observers in any working group that the FIP-SC may form. If requested by the active observers, the FIP-SC should include time for questions and answers on decisions taken by the FIP-SC.

23. Consistent with the policy on disclosure of documents prepared for purposes of the Climate Investment Funds and the rules of procedure for the SCF Trust Fund Committee, a Co-Chairs summary of each FIP-SC meeting will be prepared to record the conclusions of, and decisions reached at, each meeting. The Co-Chairs summary will be made publicly available. Any policy document to be approved by the FIP-SC, including, *inter alia*, documents developed for approval in accordance with paragraph 25(d) and (f) of this document, will be made publicly available on the FIP website for review and comment at least four weeks prior to consideration by the FIP S-C. Proposed and final policy documents, and all comments received on such documents, will be posted on the FIP website.

24. It is recognized that consistent with the decisions of the SCF Trust Fund Committee and its rules of procedures, active observers may:

- a) request the floor during discussions of the FIP S-C to make verbal interventions,
- b) request the Co-Chairs to add agenda items to the provisional agenda, and
- c) recommend to the FIP S-C or the Co-Chairs external experts to speak on a specific agenda item.

Functions of the FIP-SC

25. The FIP-SC will be responsible for:

- a) agreeing upon the number of country or regional pilot programs;
- b) approving the terms of reference for, and the composition of, the expert group;
- c) appointing the members of the expert group;
- d) approving elaborated criteria for selection of country or regional pilots based on section V “Criteria of Selection of Country or Regional Pilots” and guidance to be followed by the expert group;
- e) selecting pilot countries taking into consideration the recommendations of the expert group;

- f) approving elaborated programming priorities and operational criteria based on section VI, “Criteria for FIP Investment Strategies, Programs and Projects”;
- g) approving financing terms and modalities for the FIP, including those for private sector activities;
- h) endorsing further development of activities in investment strategies for FIP financing;
- i) approving FIP financing for programs and projects;
- j) ensuring complementarity between activities foreseen for the FIP and activities of developing countries, relevant regional organizations and initiatives and other development partners active in the field of climate change and forests, including the FCPF and other MDB efforts, UN-REDD Programme and other UN efforts, and GEF;
- k) ensuring that the FIP program builds in provisions for evaluating the performance and effectiveness of FIP investments and for developing full reporting criteria and a performance measurement framework, taking into account Annex II of this document;
- l) periodically reviewing and publishing the effectiveness and impact of FIP programs and activities, and ensuring that “lessons learned” are applied to future FIP investments and transmitted through the SCF Trust Fund Committee to the UNFCCC and other stakeholders; and
- m) exercising such other functions as they may deem appropriate to fulfill the purposes of the FIP.

VIII. EXPERT GROUP

26. An Expert Group should be established by the FIP-SC to make recommendations on selection of country or regional pilots for the FIP. The FIP-SC should provide to the Expert Group elaborated selection criteria and guidance. The Expert Group should make recommendations to the FIP-SC on a short-list of country or regional pilots.

27. The Expert Group should include individuals, acting in their personal capacities, chosen on the basis of their expertise, strategic and operational experience and diversity of perspectives, including knowledge of scientific, economic, environmental and social aspects of conservation and sustainable use of forest ecosystems and climate change, gender and forestry, private sector, governance and institutional and development planning. The Expert Group members should be selected in accordance with criteria to be approved by the FIP-SC, taking into account professional qualifications of the experts. The group should be gender balanced, include experts from both developed and

developing countries on an equal geographical basis, indigenous peoples and local communities, and should receive support required to fulfill their functions properly.

IX. FIP PROGRAMMING PROCESSES⁴

28. Prior to convening of the Expert Group the FIP-SC should determine the number of pilots to be financed and criteria for country selection.

29. Thereafter the Administrative Unit should inform eligible countries, through the country offices of the MDBs, of the program and invite submission of a brief expression of interest by governments to be considered as a pilot country.

30. The Expert Group, applying the elaborated criteria for selecting country or regional pilots approved by the FIP-SC, should make recommendations on a shortlist of country or regional pilots.

31. The FIP-SC will select country or regional pilots taking into account the recommendations of the Expert Group. Thereafter the Administrative Unit should inform each selected country, through the country offices of the MDBs, and invite submission of a confirmation of interest by the government to participate in the FIP.

32. For each selected and confirmed country or regional pilot the MDBs concerned, including both the public and private sector units, will organize a joint mission to support the government or group of governments to develop an investment strategy. The development of the investment strategy should be inclusive, transparent and participatory, involving: sectoral ministries; provincial, state or local authorities; development partners working in the country, including UN and bilateral development agencies; representative NGOs, indigenous peoples organizations, women's groups and local communities; private sector; and other stakeholders.

33. The FIP programming process should take fully into account existing sustainable development plans, national climate change efforts, forest-related programs, and ongoing and planned MDB operations in the country's forest sector, and should build on other climate and forest funding sources and initiatives in a manner that is complementary and leverages further financial support.

34. The FIP-SC members and active observers will be informed in advance of the joint mission. The outcome of the collaborative exercise will be an investment strategy, developed under the leadership of, and finalized, approved and owned by, the government of the recipient country, for the use of FIP resources through a joint MDB program. Drafts of investment strategies will be publicly available in country for purposes of consultation. Investment strategies will be submitted to the FIP-SC for review and endorsement for the further development of activities in such plans for FIP financing. Final investment strategies will be made publicly available in-country and on

⁴ See Annex I to this document for a flowchart of the programming process.

the FIP website at the same time as they are submitted to the FIP-SC, allowing sufficient time for public review and comment before FIP-SC endorsement.

35. After endorsement of the investment strategy by the FIP-SC, concepts for projects and programs will be developed through a government led process by the countries into detailed proposals. In developing such proposals governments should indicate whether the program or project is to be executed by national, regional, or local governments, indigenous peoples or their organizations, community based organizations, NGOs, private enterprise or other members of civil society. Documents related to proposed programs and projects will be made publicly available in-country and on the FIP website at the same time as they are submitted to the FIP-SC, allowing sufficient time for public review and comment before FIP-SC approval.

36. The FIP programming, approval and supervision processes will follow the MDB's policies and procedures, including the relevant MDB's disclosure policy.

37. Governments of pilot countries should establish, or identify an existing, cross-cutting multi-stakeholder national level steering committee to assist in program planning, implementation, monitoring and evaluation, which should include representatives of provincial, state and local authorities, indigenous peoples and local communities, NGOs, private sector and other members of civil society.

X. INDIGENOUS PEOPLES AND LOCAL COMMUNITIES DEDICATED INITIATIVE

38. The full and effective, continuous participation of indigenous peoples and local communities in the design and implementation of FIP investment strategies is necessary. This participation will be highly dependent on strengthening the capacity of these groups to play an informed and active role in national REDD processes in general and FIP processes in particular, as well as on recognizing and supporting their tenure rights, forest stewardship roles, and traditional forest management systems. A dedicated grant mechanism should be established under the FIP to provide grants to indigenous peoples and local communities in country or regional pilots to support their participation in the development of the FIP investment strategies, programs and projects. At the implementation stage grants to indigenous peoples and local communities should be an integral component of each pilot.

39. The scope of activities eligible for support from a dedicated grant mechanism for indigenous peoples and local communities (and their designated support organizations) should include, *inter alia*, support for securing and strengthening customary land tenure and resource rights and traditional forest management systems of indigenous peoples and local communities; support, including capacity building as required, for the development of pilot project proposals by indigenous peoples and local communities and their implementation; and support for the involvement of indigenous peoples and local

communities in monitoring and evaluation of forest activities, in conformity with relevant national laws and regulations.

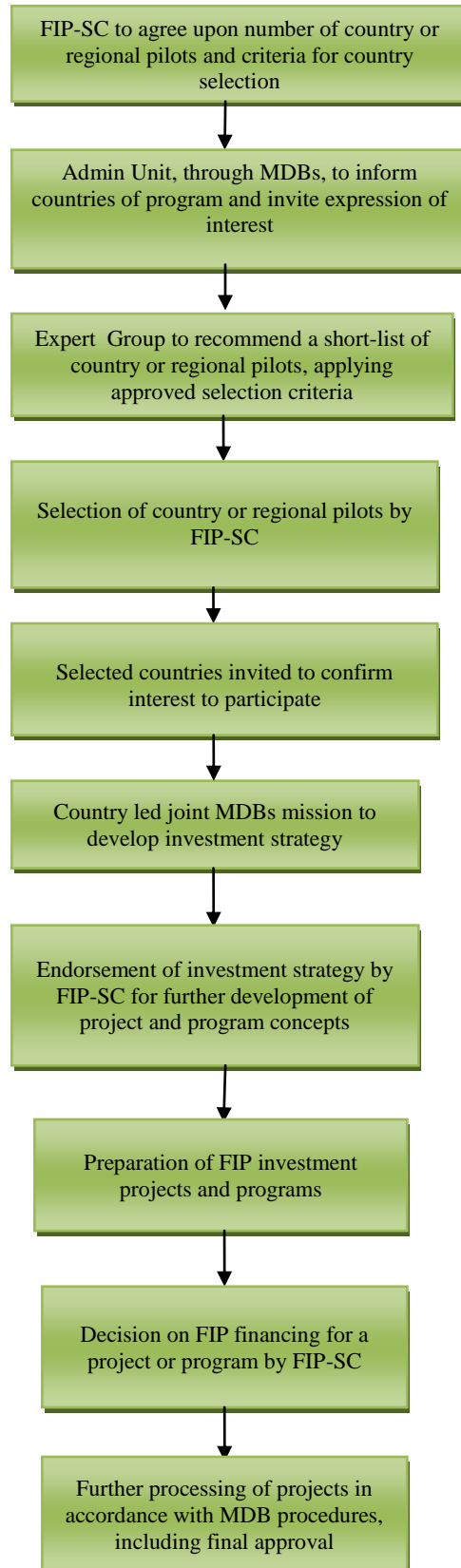
40. The operational principles and priorities, funding modalities and governance of the dedicated grant mechanism should be developed through broad, transparent consultation with indigenous peoples and local communities (and their designated organizations) across all forest regions, and should build upon lessons learned from existing mechanisms. The terms of reference (ToR) for the development of a proposal for a dedicated mechanism should be drafted by the indigenous peoples and civil society representatives selected to participate in FIP design meetings (or a subset thereof), in consultation with indigenous communities and local communities, and a qualified consultant. A proposal for a dedicated mechanism should be submitted to the FIP-SC for review and approval.

XI. MONITORING AND EVALUATION

41. Country level monitoring should be coordinated through the multi-stakeholder national level steering committee referred to in paragraph 37. Monitoring at the country level should be participatory (including involvement of indigenous peoples and local communities, and civil society organizations in data collection and analysis), transparent and verifiable. Systems of independent forest monitoring developed over the last decade should be adapted to incorporate REDD and could be developed where they do not exist. This type of monitoring will enable independent assessment of the legal, social, economic, enforcement and management dimensions of forest governance that will be vital to the long-term success of any efforts to reduce or prevent deforestation and forest degradation.

42. The FIP-SC should report to the SCF Trust Fund Committee on results, outcomes and lessons learned from the pilots achieved at the programmatic, country and project level, based on the monitoring results of the MDBs and the results of the FIP-SC review of effectiveness and impact of FIP programs and activities. An independent joint evaluation of the operations of the FIP and its activities, including its governance and self-selection processes, will be carried out after three years of operations by the independent evaluation departments of the MDBs. Lessons learned and results achieved through the FIP should be published and made publicly available.

43. Full reporting criteria and a framework for planning, impact, learning and evaluation should be reviewed and approved by the FIP-SC. Such a framework should be based on the objectives, principles and criteria of the FIP, as set forth in sections II, III and VI above and Annex II of this document.

Annex I: Flowchart for FIP Programming

Annex II

Initial Guidance on How Transformational Change Will Be Defined and Assessed under the Forest Investment Program^{i,ii}

The purpose of this annex is to provide guidance on how the overarching FIP objective of “transformational change” should be understood in the context of various FIP criteria and principles. The considerations listed below, together with the criteria set forth in Section VI, should be used to assess investment strategies, programs and projects and to prioritize programs or projects with a view to initiating and facilitating steps toward transformational impact. These considerations should also inform the development of measureable indicators for the assessment process and a full results framework for the FIP as a whole.

FIP Criteria for initiating Transformational Change	FIP Reference	Guiding considerations for future development of FIP indicators and a framework for planning, impact, learning and evaluation for the FIPⁱⁱⁱ
1. Climate change mitigation potential	16 (a)	<ul style="list-style-type: none"> • Achievement or projected potential achievement of significant GHG savings from (i) avoided deforestation and forest degradation and/or (ii) GHG sequestered, based on a clearly articulated reference level (baseline) to assess gross emissions reductions (savings) • Forest area conserved, restored, sustainably managed, protected or afforested/reforested • Public-good and non-market value of forests given due weight
2. Addressing drivers of deforestation and degradation	16 (c)	<ul style="list-style-type: none"> • Assessment identifies direct and underlying causes and drivers of deforestation and forest degradation • Gaps, challenges and strategic opportunities to reverse deforestation and degradation are identified and measures to address them are prioritized, incorporating lessons learned from past efforts • Measures generate positive incentives and reverse problematic incentives across sectors and lead to lasting change
3. Forest-related governance provisions defined	16 (f)	<ul style="list-style-type: none"> • Relevant governance challenges and needs are systematically assessed and addressed in a practical manner • Governance criteria and indicators defined and baseline established • Conflict resolution measures in place, locally and nationally

4. Country's ownership, preparedness and ability to undertake REDD initiatives	13 (a), 15 (c)	<ul style="list-style-type: none"> • REDD strategy or other appropriate national strategy for the forestry sector aimed at sustainable and holistic national approach, including diverse stakeholders, is approved or under development • Expression of high-level political commitment • Functioning institutional framework and cross-sectoral coordination mechanisms in place to deliver on REDD and to integrate the role of forests into national sustainable development strategies
5. Leveraging additional financial resources, including from private sector	11 (b)	<ul style="list-style-type: none"> • Both public and private finance institutions involved in FIP strategy and program development and implementation, in accordance with separate guidance on engagement to be developed • Ratio of private to public funds actually invested reflects substantial leverage, generally at least 4:1 , in circumstances where private sector investment is appropriate
6. Integrating sustainable development (livelihoods, biodiversity, ecosystems, economic viability)	13 (b), 16 (i)	<ul style="list-style-type: none"> • Economic, social and environmental impacts are transparently and inclusively assessed and addressed • Proposals set out how program will catalyze, support and measure and monitor the delivery of, <i>inter alia</i>, the following (as appropriate): <ul style="list-style-type: none"> i. Demonstrable improvement in social and economic well-being of forest dependent communities, including poverty reduction, equitable benefit sharing, and acknowledgement of the rights and role of indigenous peoples and local communities ii. Protection and enhancement of biodiversity iii. Strengthened resilience of ecosystems, with associated ecosystem services iv. Economic viability
7. Inclusiveness of processes and participation of all important stakeholders, including indigenous peoples and local communities	16 (d)	<ul style="list-style-type: none"> • Demonstrated continuous consultation and participation of a wide range of government and non-government stakeholders, including indigenous peoples and local communities, in the development and implementation of strategies, programs and projects • Consistency with guidelines for consultation in Annex III of the FIP design document

8. Capacity building measures for local and national institutions identified, including indigenous peoples and local communities	16 (j), X 38-40	<ul style="list-style-type: none"> Local and national institutional and financial capacity needs assessed, prioritized and addressed in a lasting way, leading to structural change Capacity of indigenous peoples and local communities to participate in design, implementation and monitoring is assessed and priority measures for capacity strengthening are identified
9. Coordinating with other REDD efforts	13 (d)	<ul style="list-style-type: none"> FIP investments take account of other REDD efforts and include analysis of comparative advantages of each REDD program within the country and identified complementarities Cooperation and coordination mechanisms in place and operating effectively at the national level
10. Demonstration, learning and impact capacity	11 (c), 13 (f), 16(e),	<ul style="list-style-type: none"> Plan aims to deliver innovation at scale and a programmatic approach that will lead to lasting improvements in the institutional and human capacity for and the actual practice of sustainable management and conservation of forests Monitoring and evaluation strategies generate evidence of impacts, and draw lessons for viability/effectiveness of the model Plan includes strategy for lesson learning and sharing within country and outside, particularly provision for South-South learning
11. Safeguarding the integrity of natural forests	16(g)	<ul style="list-style-type: none"> Plan builds on or proposes assessment and mapping of forest cover, forest type and use patterns, including identification and mapping of high conservation value forests Consistency with paragraph 16(g) of the FIP design document
12. Measurable outcomes and results-based approach	13(c)	<ul style="list-style-type: none"> Participatory and independent approaches to monitoring and evaluation, including <i>inter alia</i> changes in deforestation and forest degradation, biodiversity, ecosystem, forest governance, and economic and social benefits

ⁱ This annex provides overarching guidance for prioritizing FIP investment strategies, programs and projects with a view to initiate transformational change. This guidance is subject to further development by FIP-SC after completion of the design process.

ⁱⁱ The FIP will take into account, and where appropriate leverage, emerging decisions by UNFCCC on a forest mechanism; FIP criteria and indicators will be applied and adjusted accordingly.

ⁱⁱⁱ These considerations are also intended to contribute to assessment of proposed FIP strategies, projects and programs. Hence the considerations include not only points relating to intermediate and final outcomes, but also desiderata for the content of FIP proposals.

Annex III

Guidelines for Consultations to be carried out in accordance with subparagraph 16(d) of the Design Document for the Forest Investment Program

1. Consultation with indigenous peoples and local communities likely to be affected by proposed investment strategies, programs and projects should occur freely and voluntarily, without any external manipulation, interference, or coercion.
2. The consultation process should start early and with adequate lead time since decision-making among indigenous peoples and local communities is often an iterative process, and sufficient time is needed to fully understand and incorporate concerns and recommendations of indigenous peoples and local communities in the design of consultation processes, strategies, programs and projects.
3. The indigenous peoples and local communities likely to be affected should have prior access to available information on the intent, design, and scope of the proposed strategy, program or project (including relevant options). Such information should be available and presented in a culturally appropriate and accessible manner, form, and language.
4. Consultation approaches with indigenous peoples and local communities should: recognize their own existing processes, organizations and institutions, including, *inter alia*, councils of elders, headmen, and tribal leaders, as well as indigenous peoples organizations and institutions; ensure broad community participation; and pay special attention to women, youth, and the elderly.
5. There should be a record of the consultation process and a report on the outcome of the consultation that are publicly disclosed in a culturally appropriate manner, form and language.
6. A consensus reflecting broad community support for the investment strategy, program or project should emerge from the consultations before the strategy, program or project moves forward.
7. In the case of indigenous peoples, such consensus should include support from the community as expressed by their leader(s). In addition, for both indigenous peoples and local communities, the strategy, program or project should not proceed without acquiring broad community support, as set forth in these FIP guidelines.
8. Conclusions and recommendations arising from the consultation should be integrated in the design and implementation of the investment strategy, program or project.