

CLIMATE INVESTMENT FUNDS

FIP/SC.16/4
May 2, 2016

Meeting of the FIP Sub-Committee
Oaxaca, Mexico
Thursday, June 16, 2016

Agenda 4

FIP SEMI-ANNUAL OPERATIONAL REPORT

PROPOSED DECISION

The FIP Sub-Committee reviewed the document, FIP/SC.16/4, *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 encourages MDBs and the FIP pilot countries to take all possible measures to expedite the implementation of projects and the disbursement of funds.

The Sub-Committee welcomes the progress made in new FIP countries in undertaking steps to develop the investment plans.

[The Sub-Committee may consider additional decision items based on the outcomes of the discussion of the CIF strategic directions at the Joint Meeting of the CTF-SCF Trust Fund Committees

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1 Introduction

1. This document identifies key strategic issues for the Forest Investment Program (FIP), highlights key elements of the decisions taken inter-sessionally by the FIP Sub-Committee (after their May 2015 meeting), and provides an update of the status of the portfolio of the FIP-funded programs and projects under the endorsed investment plans and related activities.
2. The report covers the period from July 1 to December 31, 2015. This report also includes projections on future approvals and factors contributing to the delay in of implementation of investment plans and projects in the country portfolios.

2 Strategic Issues

3. The FIP is at an important juncture in its activities. It is in the process of transitioning from an initiative focused mainly on preparation and planning to one where implementation takes a more central role. Due to this evolution as well as the advent of new pilot countries, the FIP is simultaneously preparing, implementing, and reporting on plans and projects.
4. Regarding projects under implementation, according to the last results reported by the countries, the area to be covered by FIP projects is 27 million hectares. The total target of FIP livelihood co-benefits beneficiaries is approximately 671,000. Targets will increase as new projects are approved by MDBs in the next years. For example, with projects approved in 2015, the total number of beneficiaries is expected to increase in the next reporting period by nearly 158,000 people to a total of approximately 829,000 people.
5. Following the May 2015 FIP Sub-Committee decision to include 15 new countries in the FIP, investment plans for these new countries are expected to be developed in a manner that broadens the scope beyond solely FIP investment funds and incorporates other non-FIP finance sources. This presents a particular challenge to the 9 countries developing investment plans without FIP funding.
6. The Paris Agreement included the presentation of many Intended Nationally Determined Contributions (INDC), which identified forests and land use as important elements. While INDCs are high level strategic proposals, they show that countries prioritize forests and that the level of ambition is high to address the drivers of deforestation and forest degradation. INDCs may provide a key source of information when countries are developing their FIP investment plans.
7. Ongoing strategic discussions on the FIP have resulted in a range of items which are being developed, including the enhancement of the Dedicated Grant Mechanism, new modalities for private sector finance¹, and strengthening the programmatic approach to include issues as landscape restoration, deforestation driven by commodities, and sustainable forest

¹ See paragraph 70.

management by communities. The CIF Administrative Unit is working on a CIF Strategic Paper to be presented in the June Meeting which will include a more detailed analysis of these options.

2.1 Investment Planning in New Pilot Countries

8. The FIP Sub-Committee of May 2015 approved six new countries to be supported under the FIP: Republic of Congo , Cote d'Ivoire, Ecuador, Guatemala, Mozambique, and Nepal. Up to USD 145 million was made available for these countries to fund projects within their investment plans and a preparation grant of USD 250,000 was made available to each country to develop their investment plans, with the expectation that these investment plans would be submitted within a two-year time frame.
9. All six countries have made good progress in initiating process for developing their investment plans. Three countries (Cote d'Ivoire, Guatemala, and Mozambique) have accessed the investment plan preparation grant and scoping missions have been undertaken in four of the six countries. The Investment Plans for Mozambique and Ivory Coast will submitted for approval to the FIP Sub Committee in June 2016.
10. The FIP Sub-Committee also invited nine countries to prepare FIP investment plans: Tunisia, Bangladesh, Zambia, Cambodia, Cameroon, Guyana, Honduras, Rwanda, and Uganda. Up to \$250,000 has been made available to each to develop an investment plan with the understanding that there are currently no resources available to implement these plans. Two countries (Cameroon and Tunisia) have accessed the investment plan preparation grant.
11. Development of these investment plans without allocated FIP funding will require careful consideration as they are expected to be structured to attract resources from other sources.
12. A detailed update on the status of Investment Plan development for each country is included in Annex 1.

2.2 Resource Availability in the FIP

2.2.1 Review and Update

13. As of December 31, 2015, the FIP program has USD 10.66 million available, resulting from a USD 21.32 million shortfall in grants² and USD 31.98million surplus in loans.
14. This implies that the countries developing investment programs will need to maintain the grant/loan levels indicated in the Sub-Committee's funding decision. It also constrains existing investment programs and projects in their ability to switch finance from loan to grants. Analysis is ongoing on the effects of foreign exchange rates fluctuation on the grant and loan elements of FIP resources. Detailed information on the FIP resource availability is provided in Annex 2.

² Includes the additional grant resources allocated for 2 new concept proposals in Brazil and Ghana (see section 3.2.2).

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

Funds Available to Support FIP Programming (as of 31 Dec. 2015)	158.34
Add: Pledges/Contributions/Projected Investment Income ^{1/}	222.44
Total Available Funding	380.78
Less: Pipeline Projects to be Submitted for Approval(including fees) ^{2/}	(395.85)
Projected Administrative Budget(FY17-FY21) ^{3/}	(14.20)
Surplus(Shortfall) - exclusive of fund reserves	(29.27)
Reserves ^{4/}	39.93
Surplus(Shortfall)	10.66

1/ This includes an indication of potential appropriation from U.S. Congress.

2/ Projects/programs recently reviewed by the MDBs for submission to the committee for approval. Also includes fees and funding decisions on country programming budget and IP preparation grant for new countries.

3/ Projection for administrative budget includes resources for administrative services provided by the CIF AU, Trustee and MDBs.

4/ This amount is withheld to mitigate the over-commitment risk associated with the potential impacts of exchange rate fluctuations on the value of non-USD denominated promissory notes.

2.2.2 Resources Allocated for New Concept Proposals for the Existing Pilot Countries

15. The FIP Sub-Committee endorsed the following concept proposals by mail in October 20, 2015, following the decision of May 2015 to endorse concept notes for additional funding for existing FIP pilot countries:
 - a) Brazil: Integrated Landscape Management in the Cerrado Biome (IBRD), taking note of the request for a total of USD 25 million in grant financing.
 - b) Ghana: Reducing Degradation and Deforestation due to Mining in Forest Landscapes (IBRD), taking note of the request for a total of USD 10 million in grant financing
16. In collaboration with MDBs, Brazil and Ghana have been invited to submit fully-developed project proposals for FIP funding approval, taking account of the decision of the Sub-Committee in November 2014 that approval will be given once existing unallocated FIP resources, as well as previously pledged resources, become available.

2.2.3 Resources Allocation for the New Pilot Countries

17. At the end of August 2015, three months after the 6 new FIP pilot countries were accepted, the FIP Sub-Committee approved by mail their proposed funding allocation (see Table 2).

Table 2: Indicative Allocation of Grant and Loan Resources

	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

2.3 Synergies across SCF Programs

18. The decision of the FIP and PPCR Sub-Committees in May 2015 to bring in a new cohort of countries offered the opportunity to explore potential synergies between PPCR and FIP investment plan processes. Options include a range of possible steps: from joint PPCR and FIP scoping and joint missions to joint or combined investment plans. Three countries (Honduras, Rwanda, and Uganda) were invited to develop both PPCR and FIP investment plans and therefore offer a unique opportunity to test the joint planning approach.
19. For example, in Honduras a joint PPCR-FIP scoping mission took place via video conference in October 2015 followed by a PPCR-FIP joint mission in Tegucigalpa in November 2015. A key objective was to define the coordination mechanisms and the initial institutional arrangements required of PPCR and FIP processes. The joint mission highlighted that the PPCR and FIP seek complementary objectives and respond to the same logic of intervention regarding adaptation and mitigation schemes. The mission also acknowledged Honduras' high-level political commitment to facilitate the coordination of PPCR and FIP processes, in particular through the creation of an inter-agency coordination committee. Given the multi-sectoral nature of the PPCR and FIP and the identified overlapping mandates, policies, and investment strategies, further analysis and consideration are required in order to frame the preparation and implementation of both programs.

3 Status of the FIP

3.1 Overview and Trends

20. The pledge amount to the FIP as of December 31, 2015 is USD 775.2 million, of which USD 555.2 million has been endorsed by the FIP Sub-Committee as indicative allocations to the participating countries.
21. As shown in Table 3, the FIP portfolio currently contains a total of 47 projects and programs:

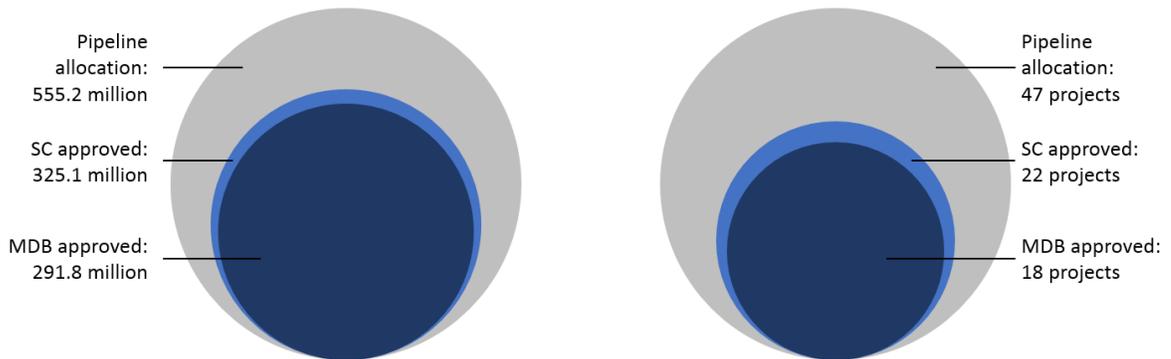
- a) 27 projects and programs agreed in the endorsed investment plans (including the two new concept notes approved in October)
- b) 16 projects in the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM)
- c) Four projects in the FIP private sector set-aside (PPSA)

Table 3: Overview of FIP Portfolio (USD million)

	Endorsed Indicative Allocation				Approved funding		Disbursement
	TOTAL	IP	DGM	PSSA	Committee	MBD	
FIP Funding (in USD M)	555.2	455.0	80.0	20.3	325.1	291.8	36.1
Number of projects	47	27	16	4	22	18	14

22. Fifty-nine percent of FIP funding for projects in endorsed investment plans and programs has been approved by the FIP Sub-Committee and 53 percent has also received MDB approval (see Figure 1).

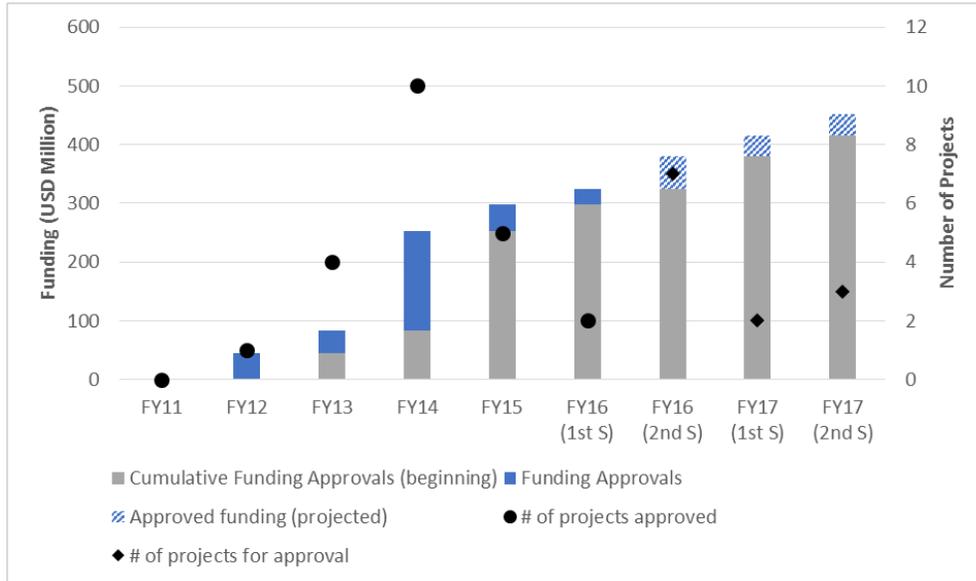
Figure 1: Status of FIP Portfolio by Funding (USD million) and by Number of Projects



23. As of December 2015 (1st semester of FY 2016), 22 projects have been approved by the FIP Sub-Committee for a total of USD 325.1 million. Figure 2³ shows that cumulative funding approvals have risen steadily since endorsement of FIP investment plans, private sector set-aside concepts, and the DGM. According to the most recent update from the MDBs, 12 projects will be submitted for Sub-Committee approval by the end of FY 2017.

³ Figure 2 does not include projects for which the MDBs have not provided an expected date for SC approval.

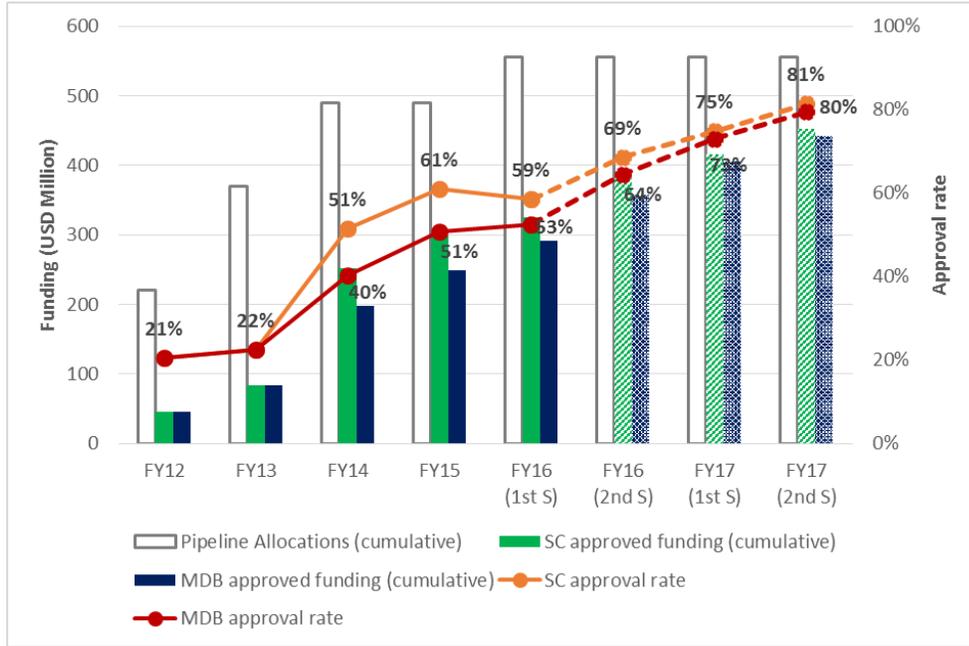
Fig 2: Project Approvals by FIP Sub-Committee by Fiscal Year



24. By December 2015, 59 percent of the currently endorsed funding was approved by the Sub-Committee, while the MDB approval rate was 53 percent (see Figure 3)⁴. If current projections hold true, the expected approval rates up to the end of Fiscal Year 2016 (June 2016) will continue to increase totaling 69 percent of the funds approved by the Sub-Committee and 64 percent approved by the MDBs.

⁴ Data analyzed in Figure 3 only includes projects for which the MDBs have provided an expected approval date.

Fig 3: FIP Funding Approval rates by Fiscal Year (and semester projections)

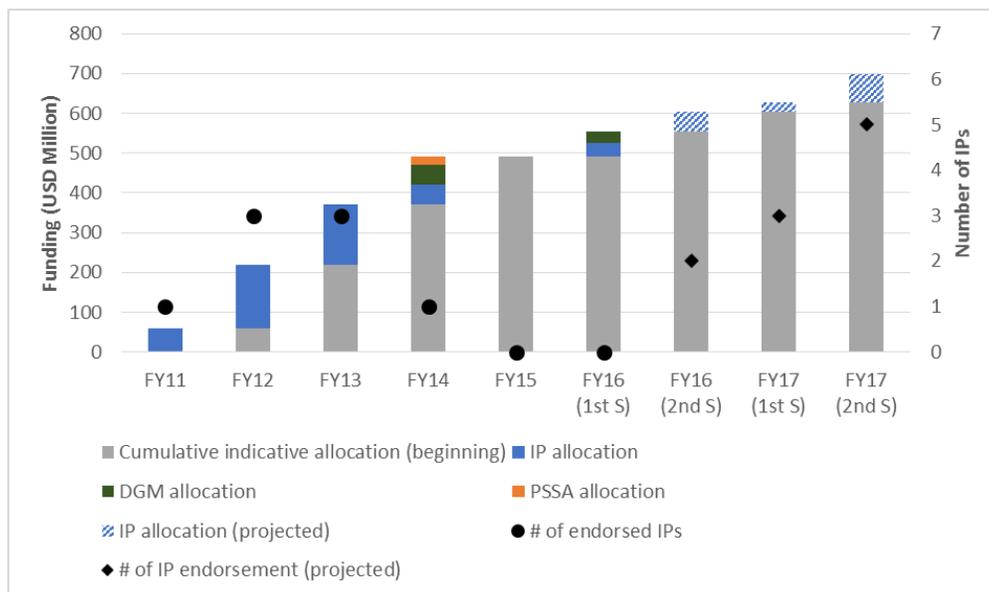


3.2 Portfolio Updates

3.2.1 Investment Plans

25. The FIP Sub-Committee has endorsed all eight initial FIP pilot countries investment plans. Figure 4 shows the trend of investment plan endorsement, including the new FIP countries that were added to the FIP program in May 2015 and are expected to submit their investment plans for endorsement within a two-year timeframe.

Figure 4: FIP Investment Plan Endorsement by Fiscal year



3.2.2 Trust Fund Committee Approvals

26. During the reporting period, two projects were approved by the FIP Sub-Committee for a total of USD 26.3 million.

Table 4: FIP Sub-Committee Approved Projects and Programs (July 1-December 31, 2015)

Country	Project Title	MDB	Project Funding*	Approval Date
Brazil	Development of Systems to Prevent Forest Fires and Monitor Vegetation Cover in the Brazilian Cerrado	IBRD	9.3	Jul-15
Indonesia	Promoting Sustainable Community-Based Natural Resource Management and Institutional Development	IBRD	17.0	Oct-15
TOTAL			26.3	

*Excluding PPG that was approved in previous reporting periods

3.2.3 MDB Approvals

27. Three projects were approved by their respective MDB Boards during the reporting period for a total of USD 42.5 million.

Table 5: MDB Approved Projects and Programs (July 01-December 31, 2015)

IP/DGM/PSSA	Country	Project Title	MDB	Project Funding*	Approval Date
IP	Brazil	Environmental Regularization of Rural Lands in the Cerrado of Brazil	IBRD	32.5	Jul-15
DGM	Burkina Faso	Dedicated Grant Mechanism for Indigenous Peoples and Local Communities in Burkina Faso	IBRD	4.5	Sep-15
DGM	Peru	Dedicated Grant Mechanism in Peru	IBRD	5.5	Sep-15
TOTAL				42.5	

*Excluding PPG that was approved in previous reporting periods

3.2.4 Dedicated Grant Mechanism

28. The Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM) aims to enable the full and effective participation of these groups in REDD+ and FIP processes at local, regional, and global scales. It is funded under the FIP with USD 80 million allocated for country projects in 14 FIP countries and a Global Learning and Knowledge Exchange Project. Through the DGM, mitigation and adaptation solutions established by forest communities will be supported, shared, and elevated to the global

policy arena. As of period close, the Brazil DGM and the Peru DGM were officially launched.

29. The DGM Global Project aims to strengthen indigenous peoples and local communities' networks and enhance their representation and voice in international REDD+ dialogues. It also provides secretariat services to the DGM Global Steering Committee (GSC). The project became effective on June 17, 2015, and Conservation International serves as the Global Executing Agency (GEA). During this first implementation period, the GEA undertook several key tasks:
 - a) Convening the DGM Global Steering Committee: The GEA convened, supported, and coordinated the work of the DGM GSC and its members. The first GSC Meeting was held in Bali, Indonesia in July 2015, where project activities, strategies, and procedures were approved.
 - b) Global coordination and outreach to partners: The GEA organized two side events at COP21 in Paris, France with approximately 130 total attendees to present the DGM approach to global partners. In addition, conversations were initiated with global donors and Indigenous Peoples organizations about synergies and opportunities.
30. The following are updates of DGM projects at the country level.
31. Brazil: During this first implementation period, the DGM Brazil accomplished the following:
 - a) Established and convened the DGM Brazil National Steering Committee (NSC): The NSC was formally recognized by Brazil's ministries of environment and justice, and NSC membership was finalized on November 30, 2015.
 - b) Established a Grievance Redress Mechanism: The DGM Grievance Redress Mechanism was established and made available on the DGM Brazil website. Procedures for making sub-grants under the project were also finalized.
32. Peru: The DGM Saweto Peru Project held its official launch event in Lima, Peru on October 7, 2015 during the World Bank Annual Meetings. The high level event was attended by Peru's Vice Minister for Environment and the World Bank Country Director for Peru. The NEA, World Wildlife Peru, has worked alongside the NSC and the World Bank to establish an Operations Manual for the project and activities, which include a strong focus on land titling among Peruvian Amazon communities.
33. Burkina Faso: The DGM Burkina Faso Local Forest Communities Support Project became active in November 2015 with IUCN⁵ selected as the NEA. The project will work with local communities in the 32 communes surrounding forests in FIP regions to develop capacities and to support economic and sustainable natural resource management activities.

⁵ International Union for Conservation of Nature, Burkina Faso Office

34. Democratic Republic of Congo (DRC) has established an NSC, and the country project is being finalized. Caritas has been selected as the NEA, and inception activities are expected to begin in the next period.
35. Indonesia has also established a NSC and is currently drafting the country project. Samdhana Institute has been selected as the NEA.
36. Other Countries: In Ghana and Mexico, formation of the NSC is well underway following processes identified in each country. Of the newly approved FIP countries, Mozambique, Cote d'Ivoire, and Republic of Congo have already reported early steps to establish the DGM by forming interim NSCs. A learning visit is being planned for the members of Ivory Coast DGM to Burkina Faso to learn from their experience on the DGM.

3.3 Cross-cutting Themes

3.3.1 Knowledge Management

37. The CIF Administrative Unit is producing a video about the first results achieved by Mexico's investment plan. This video has been launched in Spanish and English on the CIF's YouTube channel⁶.
38. In the November 2015 FIP Sub-Committee meeting, the Co-Chair from Mexico offered to host the next FIP Pilot Countries Meeting in Mexico. The CIF Administrative Unit welcomed the offer and is currently working on the preparation of the meeting, which will be held in June 2016.

3.3.2 Gender

39. The portfolio of investment plans and projects approved by the Trust Fund Committee across all four CIF programs from January 1 to December 31, 2015 was reviewed to identify program progress regarding gender 'quality at entry' of investment plans and project design. The three 'scorecard' indicators regarding presence of (i) sector-specific gender analysis; (ii) gender-disaggregated indicators; and (iii) women-specific activities were reviewed for each investment plan and project. Figures were compared to baseline performance of the CIF portfolio as on June 30, 2014.
40. Findings revealed that while current performance had improved relative to the FIP historical baseline, nonetheless FIP projects⁷ approved in 2015 performed below the SCF average on all three gender scorecard indicators. Specifically, sector-specific gender analysis was undertaken in 67 percent of FIP projects approved (compared to SCF average of 85 percent). Presence of gender-disaggregated indicators at project level was found in just 50 percent of FIP projects approved in 2015 (compared to a SCF average of 71 percent), while 67 percent of FIP projects approved in 2015 planned specific activities targeted at women (compared to a SCF average of 77 percent). In order to improve this

⁶ English video: https://www.youtube.com/watch?v=EJjT_AunOnA

Spanish video: <https://www.youtube.com/watch?v=fBRQ5Fule2M>

⁷ There were no FIP IPs approved in 2015.

situation, the FIP Monitoring and Reporting Toolkit will be revised to include gender-disaggregated results for all relevant indicators.

41. In Peru, the DGM supports selected indigenous communities in the Peruvian Amazon to improve their sustainable forest management practices, with specific initiatives in native community land titling, and in community forest management. In recognition of the significant role that indigenous women play in forest management, \$500,000 of project funds have been set aside for subprojects proposed or managed by women in areas such as food security, agroforestry, and timber.
42. In Burkina Faso, the DGM project seeks to strengthen local community capacity in five regions of the country for REDD+ participation at local, national, and global levels. Beneficiaries targeted include 40 percent female beneficiaries, and the training of forest users in improved practices, 20 percent of whom will be women.

3.3.3 Monitoring and Reporting

43. In 2015, Brazil, Burkina Faso, Ghana, Lao PDR, and Mexico submitted results reports to the CIF Administrative Unit, covering results up to December 2014. These inputs were used to prepare the FIP 2015 Results Report⁸. FIP pilot countries reported baselines, expected results, and in the case of Mexico and Lao PDR, achieved results. DRC was not requested to report in 2015 as project activities had not yet started, and there was no significant progress to report. Indonesia and Peru were not requested to report in 2015, as their projects had not been approved in the 2015 reporting period.
44. The FIP 2015 Results Report was published and presented during the FIP Sub-Committee meeting on November 12 2015, using the agreed core indicator themes relevant for their FIP investment plan. Some of the highlighted findings of the FIP 2015 Results Report were: i) The FIP monitoring framework could include more ways to capture the efficacy of readiness funding; ii) lack of harmonization of GHG accounting does not allow to aggregate or compare results across the FIP portfolio; iii) opportunities to strengthen gender-responsive approaches in FIP should be tapped. These include future work on gender tools, technical support, and program monitoring.
45. The FIP 2015 Results Report highlighted the following recommendations: i) FIP pilot countries should aim at improving the quality of the report data (harmonizing the GHG emission baselines and targets would be a substantial step forward); ii) stakeholder engagement should be continued throughout the next reporting period, and participative scoring workshops should be conducted during 2016; iii) the FIP community of practice should be strengthened.
46. During the November 2015 FIP Sub-Committee meeting, the “GHG Emission Reduction Calculation Guidance Note”⁹ was presented as a FIP knowledge product. Challenges highlighted in this presentation were: i) different GHG emission reduction accounting

⁸ http://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/fip_15_4_fip_results_report_0.pdf

⁹ FIP/SC.15/5, FIP Knowledge Products and presentation on the GHG Emission Reduction Calculation Guidance Note (http://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/fip_15_5_fip_knowledge_product.pdf)

methodologies have been used by each project, meaning data cannot be compared or aggregated; ii) comparing one country's GHG emission reduction targets with another is not possible.

47. The recommendations were: i) provide technical assistance on GHG accounting, especially for new FIP pilot countries; ii) consult with FIP pilot countries and MDBs about harmonization of GHG accounting methodologies; iii) an agreement should be reached on a minimum proxy; iv) a roadmap should be developed to harmonize GHG accounting. FIP pilot countries agreed to continue this decision-making process.
48. The CIF Administrative Unit will be conducting a training workshop in Ghana, on May, 2016 to enhance the national reporting capacities and improve the quality of the results reports. The quality of the results reports is expected to improve thanks to these training workshops.
49. The CIF Administrative Unit started reviewing the FIP Monitoring and Reporting Toolkit to include more gender-specific questions. This will allow a better understanding of the FIP impact on women for the coming reporting cycle.

3.3.4 Risk Management

50. The CIF enterprise risk management (ERM) framework was established to identify, assess, and report on the CIF's material risk exposures relative to corresponding tolerances. This information supports the CIF governing bodies' financial, strategic, and operational decision-making. The CIF's Joint Trust Fund Committees (TFC) identified the operationalization of an ERM Dashboard is a key milestone in the implementation of the ERM framework. When fully operationalized later this fiscal year, the FIP Risk Dashboard will report risk assessments of approximately 15 Tier 1 and Tier 2 Risks, classifying them into the following five risk categories to facilitate TFC-level monitoring of the FIP's risk exposures.
 - a) **Strategic Risk:** Risks which affect or are created by the FIP's business strategy and strategic objectives
 - b) **Operational Risk:** The risk that inadequate or failed internal processes, people, and systems or external events will adversely affect the achievement of the FIP's objectives
 - c) **Financial Risk:** The risk that exposure to credit, market,¹⁰ or liquidity risks will adversely affect the achievement of the FIP's objectives
 - d) **Compliance and Legal Risk:** The risk that failure to comply with laws, rules, regulations, contractual obligations, prescribed practices, or standards or codes of conduct will result in fines, civil monetary penalties, payment of damages, the voiding of contracts, or otherwise adversely affect the achievement of the FIP's objectives

¹⁰ Market risk refers to the risk that fluctuations in prices of traded assets and commodities as well as fluctuations in interest and exchange rates and other market indices, adversely affect the achievement of the CIF's objectives.

- e) **Reputational Risk:** The risk that a perception develops that the FIP is unethical or imprudent, adversely affecting the achievement of the FIP’s objectives

3.4 REDD+ Activities in FIP Pilot Countries

51. It is acknowledged that the FIP does not operate in isolation and that, particularly in recent years, the REDD+ and forest sector financial landscape has been rapidly changing particularly with the completion of lengthy discussions on REDD+ within the UNFCCC process. The FIP was also designed with a specific aim that it would coordinate with the multiple sources of REDD+ related funding, in particular the Forest Carbon Partnership Facility (FCPF) and the UN-REDD Programme. Maintaining coordination between these and other initiatives is therefore important.
52. Of the 23 FIP Pilot Countries 21 are participating in either or both FCPF and UN-REDD (see Table 6). Within the reporting period Honduras presented its ER-PIN to the Carbon Fund and signed its National Program Document within UN-REDD, Cote d’Ivoire signed an additional Readiness Grant, DRC submitted its draft R-Package.

Table 6: Status of REDD+ Mechanisms in FIP Countries

Country	FCPF (as at 10/07/15)	UN-REDD (as at 12/31/15)
Bangladesh	Not a partner country	Targeted Support 2012/14 National Program 2015-17
Brazil	Not a partner country	Not a partner country
Burkina Faso	Preparation Grant signed 2015	Targeted Support 2015
Cambodia	Preparation Grant signed 2013	Targeted Support 2013 National Program 2011-15
Cameroon	Preparation Grant signed 2013	Targeted Support 2013-15
Congo Rep.	Preparation Grant signed 2012 ER-PIN Presented to Carbon Fund 2014 Carbon Fund LOI signed 2014 Signed Additional Readiness Grant 2015	Targeted Support 2012/14/15 National Program 2012-16
Cote d’Ivoire	Preparation Grant signed 2014 ER-PIN Presented to Carbon Fund 2015 Carbon Fund LOI signed 2015	Targeted Support 2012/13/14/15 National Program 2014-17
DRC	Preparation Grant signed 2011 ER-PIN Presented to Carbon Fund 2013 Signed Additional Readiness Grant 2014 Carbon Fund LOI signed 2014 Draft R-Package Submitted 2015	Targeted Support 2012/14/15 National Program 2009-13
Ecuador	Not a partner country	Targeted Support 2014/15 National Program 2011-14
Ghana	Preparation Grant signed 2011 ER-PIN Presented to Carbon Fund 2014 Carbon Fund LOI signed 2014 Signed Additional Readiness Grant 2015	Targeted Support 2013/15
Guatemala	Preparation Grant signed 2014	Targeted Support 2013

	ER-PIN Presented to Carbon Fund 2014	
Guyana	Preparation Grant signed 2014 ER-PIN Presented to Carbon Fund 2015	Partner Country
Honduras	Preparation Grant signed 2014	Targeted Support 2013/15 National Program 2015-18
Indonesia	Preparation Grant signed 2011 ER-PIN Presented to Carbon Fund 2014 Allocated Additional Readiness Grant 2014	Targeted Support 2012/13/14/15 National Program 2009-12
Lao PDR	Preparation Grant signed 2014	Targeted Support 2015
Mexico	Preparation Grant signed 2014 ER-PIN Presented to Carbon Fund 2014 Carbon Fund LOI signed 2014 Allocated Additional Readiness Grant 2015	Targeted Support 2014/15
Mozambique	Preparation Grant signed 2013 ER-PIN Presented to Carbon Fund 2015 Carbon Fund LOI signed 2015	Not a partner country
Nepal	Preparation Grant signed 2011 ER-PIN Presented to Carbon Fund 2014	Targeted Support 2012/14/15
Peru	Preparation Grant signed 2014 ER-PIN Presented to Carbon Fund 2014 Carbon Fund LOI signed 2015	Targeted Support 2012/14
Rwanda	Not a partner country	Not a partner country
Tunisia	Not a partner country	Targeted Support 2014
Uganda	Preparation Grant signed 2013	Targeted Support 2014 National Program 2015-17
Zambia	Not a partner country	Targeted Support 2014/15 National Program 2010-14

4 Portfolio Analysis

4.1 Project Pipeline Tracking

53. On average, the 18 projects that are currently under implementation have taken 22.7 months between the investment plan endorsement and the approval by the MDB (19.2 months between investment plan endorsement and FIP Sub-Committee approval, and 3.5 months between FIP Sub-Committee approval and MDB approval).
54. The CIF Administrative Unit keeps track of the status of the endorsed portfolio in order to monitor project approval delays in two stages: time elapsed between investment plan endorsement and FIP Sub-Committee approval and time elapsed between FIP Sub-Committee approval and MDB approval.
55. As per last updates by the MDBs, 16 projects have exceeded the agreed benchmark of 24 months or more without receiving FIP Sub-Committee approval. They include four projects from the DGM, four from the PPSA, and the four projects endorsed in Peru's investment

plan. The complete list is presented in Annex 3.

Table 7¹¹: Projects awaiting approval by FIP Sub-Committee

	Less than 16 months	Between 16-24 months	More than 24 months
Number of projects	-	-	16
CTF Funding (in \$M)	-	-	165.1

56. The two projects that are taking more than nine months from FIP Sub-Committee to MDB approval are Brazil - Investment Plan Coordination Project (USD 1 million), and DRC - Forest-Dependent Community Support Project (USD 6 million). An update on the status of the delayed projects is included in Annex 4.

Table 8: Projects Awaiting Approval by MDB¹²

	Less than 6 months	Between 6-9 months	More than 9 months
Number of projects	-	2	2
CTF Funding (in \$M)	-	26.8	7.0

4.2 Outlook for Projected Submissions

57. Table 9 provides the list of seven additional projects that are expected to be approved by the FIP Sub-Committee by the end of FY 2016, totaling USD 52.8 million (USD 45.8 million in grants, and USD 7 million in loans).

¹¹ Does not include 9 projects for which the MDBs have not provided an expected SC approval date.

¹² Does not include 16 projects for which the MDBs have not provided an expected MDB approval date.

Table 9: Projects in Preparation for FIP Sub-Committee Approval in the First Semester of 2016¹³

IP/DGM/PSSA	Country/Region	Project Title	MDB	Public/Private	Project Funding ¹⁾		Expected SC approval date
					Grant	Non-Grant	
IP	Indonesia	Community-Focused Investments to Address Deforestation and Forest Degradation(CFI-ADD+)	ADB	Public	17.0	-	Feb-16
IP	Lao PDR	Protecting Forests for Sustainable Ecosystem Services	ADB	Public	12.8	-	Feb-16
PSSA	Brazil	Macauba Palm Oil in Silvicultural System	IDB	Private	-	3.0	Apr-16
DGM	Ghana	DGM for Indigenous Peoples and Local Communities	IBRD	Public	5.5	-	Jun-16
DGM	Lao PDR	DGM for Indigenous Peoples and Local Communities	IBRD	Public	4.5	-	Jun-16
DGM	Mexico	DGM for Indigenous Peoples and Local Communities	IBRD	Public	6.0	-	Jun-16
PSSA	Burkina Faso	Climate change mitigation and poverty reduction through the development of the cashew sector in Burkina Faso (Wouol project)	AfDB	Private	-	4.0	Jun-16

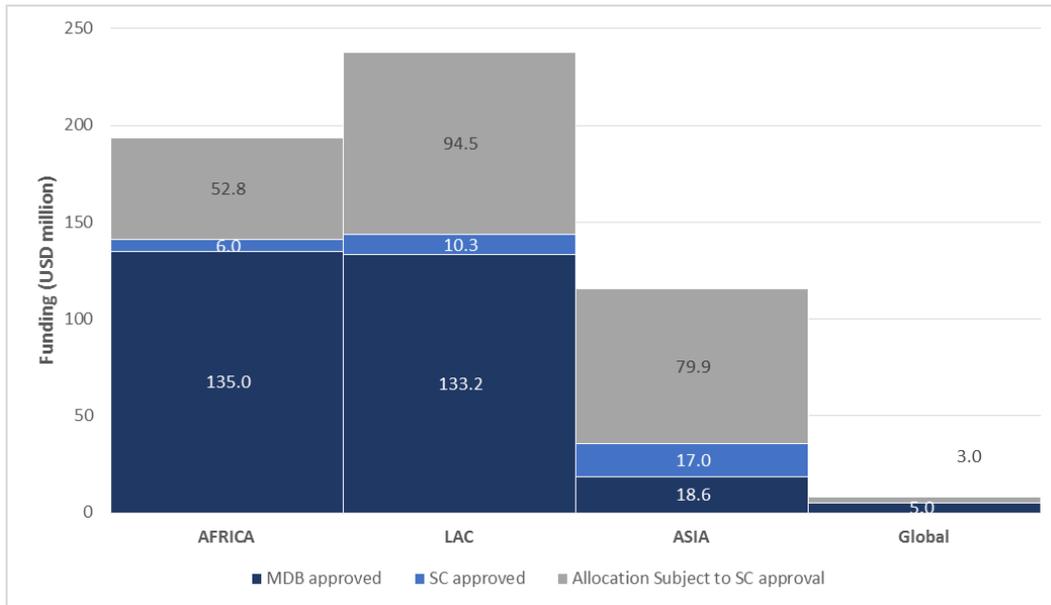
4.3 Portfolio Breakdown Analysis

4.3.1 Portfolio by Region

58. Figure 5 shows the FIP funding distribution across regions. The Latin America and Caribbean Regions receives the most FIP funding with 42.8 percent of the entire FIP allocation, followed by Africa with 34.9 percent, and Asia with 20.8 percent
59. Regarding approvals, FIP funding approval by the FIP Sub-Committee is 73 percent for countries in Africa and 60 percent for Latin American countries. Countries in Asia have encountered challenges with preparing projects and programs for funding approval; hence the approval rate of funding by the FIP Sub-Committee remains low at 31 percent of endorsed resources, totaling USD 35.6 million.

¹³ Project funding does not include PPG

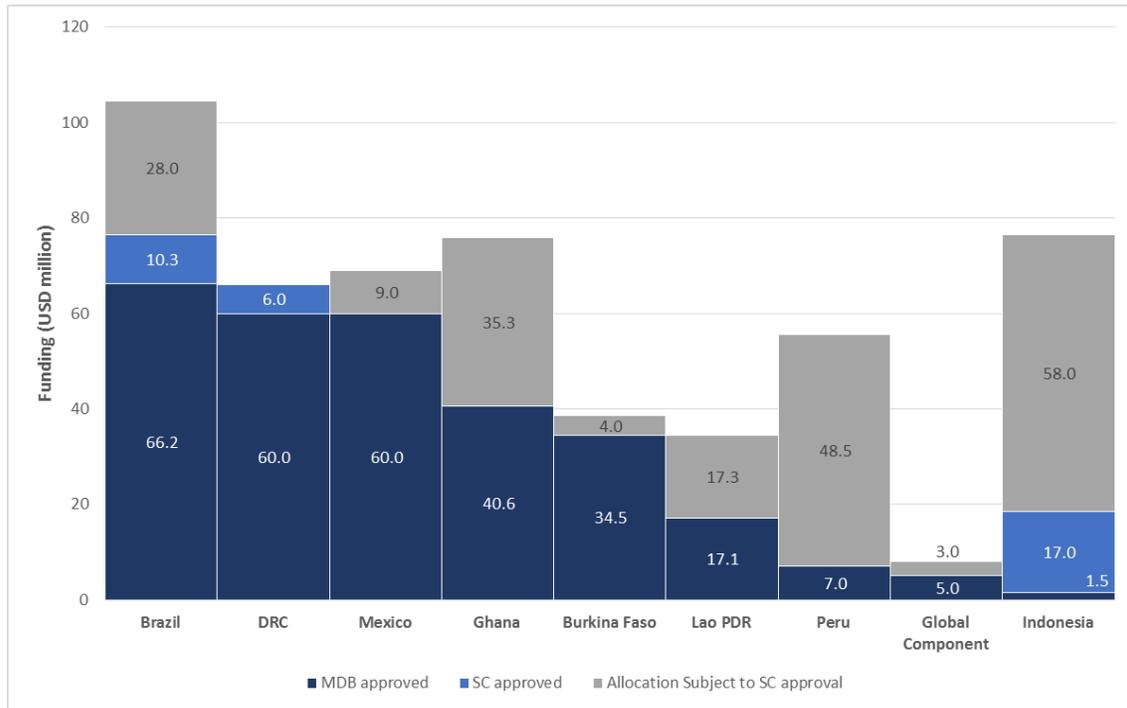
Figure 5: Indicative Allocation of Funding and Approvals by Region



4.3.2 Portfolio by Country

60. Figure 6 shows that the approval levels have varied widely among the initial eight FIP pilot countries and the DGM Global Component. This reflects the variety of challenges countries have encountered and overcome to achieve approved investment plans and projects. The challenges relate to complex issues such as governance, stakeholder engagement, capacity, and national procedures. For example, while DRC has received FIP Sub-Committee approval of all its projects, Indonesia has yet to achieve MDB approval of a project. Peru is still undergoing an internal review process in order to complete the preparation of the documents for the projects endorsed in their investment plan.

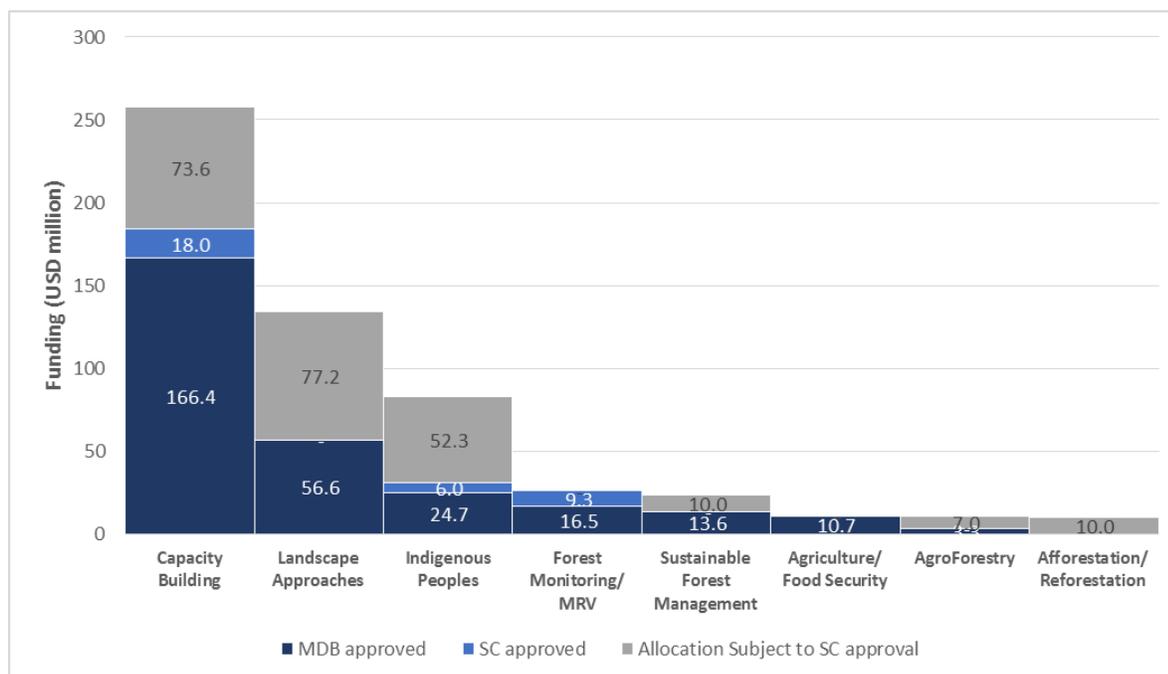
Figure 6: Funding Approval over Indicative Allocations by Country



4.3.3 Portfolio by Thematic Focus

61. More than 46 percent of FIP funds focus on capacity building activities. The concentration of funds in capacity building reflects the position within many participating countries of long-term under-investment and reduced capacity in the forestry sector, as well as the range and complexity of issues faced as part of the development of national plans. Support for these foundational stages has often been overlooked, yet they are essential for countries to be able to propose and implement transformational investments. Issues such as inter-ministerial dialogues, stakeholder engagement, improved policies and regulations, and land tenure constitute the foundation of a good level of governance that is needed to achieve country readiness and offer no-regrets investments with benefits reaching beyond the forest sector.

Figure 7: Indicative Allocation of FIP Funding and Approvals by Thematic Focus



4.3.4 Portfolio by Sector

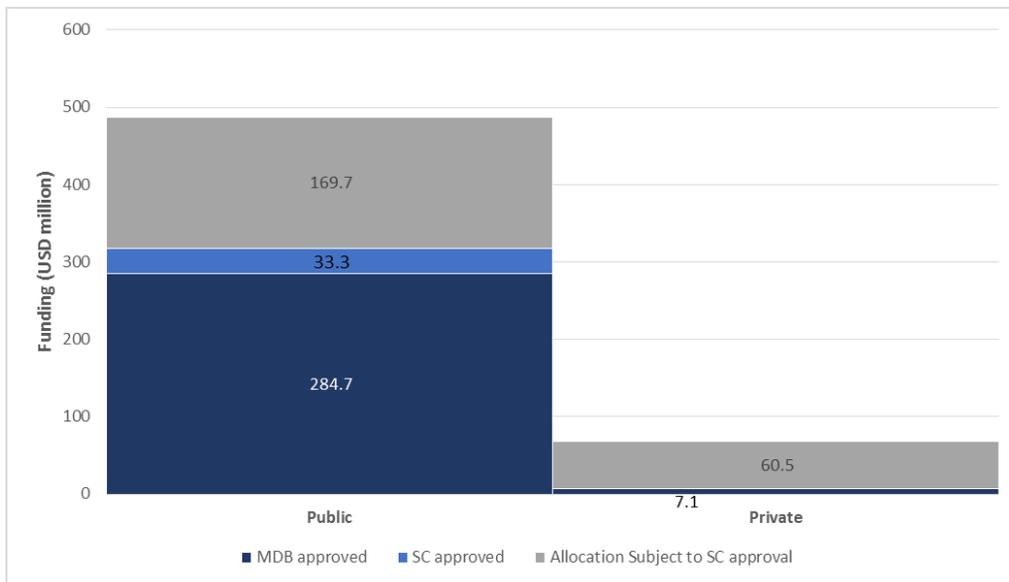
62. Figure 8 shows that USD 487.6 million (87.2 percent) of FIP allocated funds are for the public sector of which 65 percent has already been approved by the FIP Sub-Committee. Of the total public sector funding, USD 401.6 million are in grants and USD 86 million are in loans.
63. The private sector FIP portfolio totals USD 67.6 million, of which 84.7 percent (USD 57.3 million) is non-grants.
64. As of December 31, 2015 USD 7.1 million¹⁴ has been MDB-approved for the private sector, corresponding to two projects under implementation: Lao PDR - Smallholder Forestry Program, and Mexico - Support for Forest Related Micro, Small, and Medium-sized Enterprises (MSMEs) in Ejidos.
65. Catalyzing significant amounts of new private sector financing is critical to meeting the objectives of the FIP. However, numerous challenges face private sector investments in the sector, which are exacerbated by the existing investment plan framework that often favors public sector operations over private sector investments, significantly limiting private sector financing under FIP investment plans. While the private sector set-asides (PSSAs) were created to help overcome this challenge, the structure of the PSSAs contained numerous hurdles for implementing entities, such as compressed timelines for submitting

¹⁴ This amount includes USD 6.28 million for the 2 approved projects, and USD 0.82 million for the preparation for 3 projects.

project concepts, geographic restrictions on project eligibility, and availability of appropriate funding instruments. These challenges, combined with those inherent in forestry investments in challenging markets, ultimately resulted in low private sector investment under the PSSA.

- 66. One possible option to help overcome these challenges is to adjust the FIP private sector financing framework to be more aligned with that which the PPCR Sub-Committee recommended for future PPCR private sector funds. The adjustments would allow for a more flexible private sector financing approach that is better aligned with the timelines and needs of the market, which could prove the spark needed to help drive new innovative investments under FIP.

Figure 8: Indicative Allocation of FIP Funding and Approvals by Sector



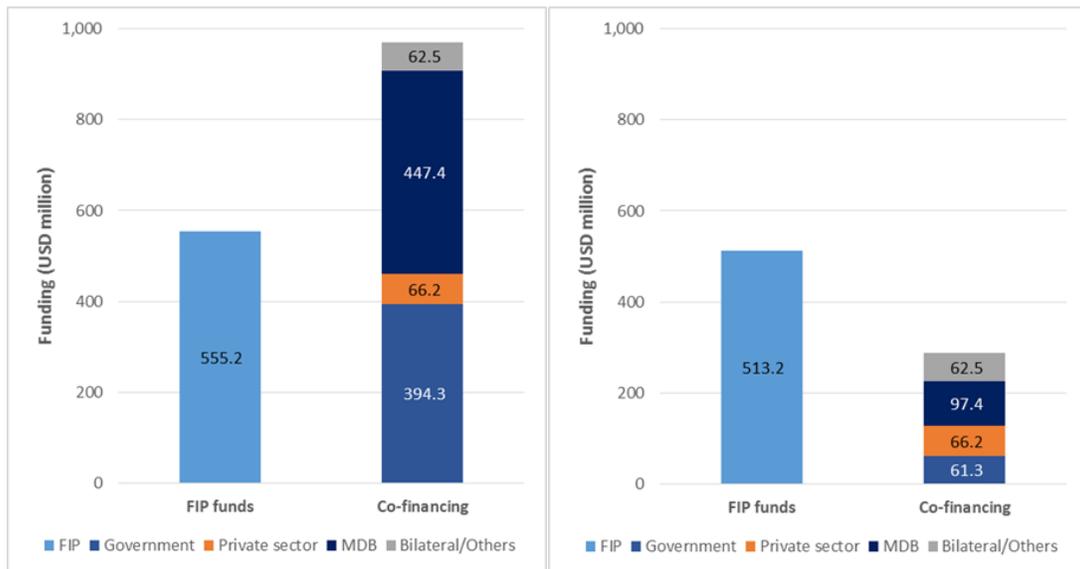
4.4 Co-financing

- 67. The projected co-financing of the endorsed FIP portfolio is USD 970.5 million, which compared to the total FIP funding gives a co-finance ratio of 1:1.75.
- 68. It is important to highlight that one project, Mexico - Forests and Climate Change Project, has a co-financing of USD 683 million (a ratio of 1:16.20), representing approximately 70 percent of the co-finance of the entire FIP portfolio. To present a more realistic picture of the co-financing levels of the FIP portfolio as a whole, two analyses are offered: one including the outlier project, and one without. As can be seen in Figure 9, when the outlier is not included, the co-financing of the FIP portfolio drops to USD 287.4 million, resulting in a co-finance ratio of 1:0.56.
- 69. When analyzing the whole portfolio, MDBs and Government are the main sources of co-financing to the FIP (46 percent and 41 percent respectively). Without the outlier project, the MDBs continue to provide the largest amount of the co-finance but at a much smaller

scale (34 percent). The rest of the co-finance is distributed almost equally among the other sources (Government, Private Sector, and Bilateral/Others).

70. The co-finance in relation to the thematic focus of the projects, illustrate that there is broad support by MDBs, national governments, private sector and bilaterals for capacity building in the foundational elements of sustainable forest management through policy reform, land use planning and institutional strengthening.

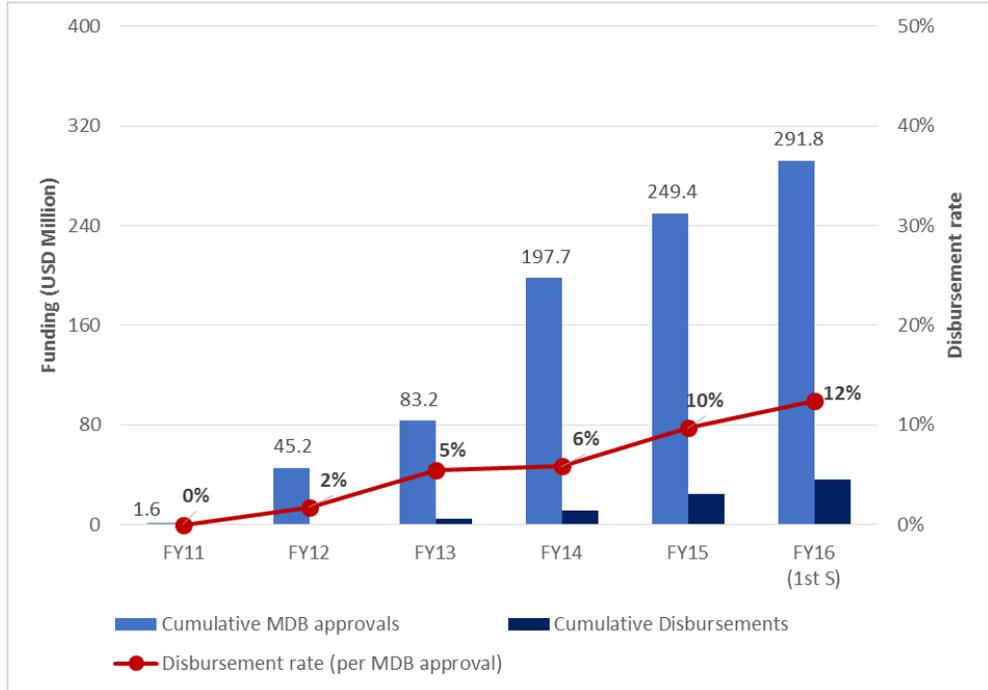
**Figure 9: Indicative FIP Co-Financing Breakdown by Source on Approved Projects
a) with the Mexico project; and b) without the Mexico project**



4.5 Disbursements

71. Although actual disbursements continue its upward trend, disbursement rates remain low, totaling USD 36.1 million, or 12 percent of the MDB approved funding. This pattern is common among new funds, reflecting the pattern shown in other CIF funds such as the PPCR. It is expected that as the pipeline matures in the following years, disbursement rates will pick up.

Figure 10: Disbursements in the FIP by Reporting Period and Fiscal Year



Annex 1: Update on Investment Plan Development (as of 31st December 2015)

- I. Republic of Congo: Scoping mission was conducted October 6-9, 2015 with AfDB and IBRD.
- II. Cote D'Ivoire: Scoping mission via video conference was held September 28-29, 2015 with AfDB and IBRD. The first joint mission took place November 9-20, 2015.
- III. Ecuador: Following recent changes in the leadership of the Ministry of Environment of Ecuador (MAE), an information meeting was held in December 2015. In coordination with the Ministry of Finance, the MAE is evaluating Ecuador's options in accepting FIP resources in a constrained fiscal environment.
- IV. Guatemala: Early dialogue has been held between IDB and the government.
- V. Mozambique: Scoping mission via video conference was held July 27, 2015 with AfDB and IBRD. Joint mission was conducted from September 28 to October 4, 2015, involving AfDB, IBRD, and IFC.
- VI. Nepal: A dialogue is underway in Nepal to introduce the FIP program to counterparts. Plans for a full mission are still under development.
- VII. Cameroon: Scoping mission took place September 21-25, 2015, involving AfDB and IBRD.
- VIII. Zambia: Scoping mission via video conference was held October 5, 2015 involving AfDB, IBRD, and IFC.
- IX. Honduras: Joint PPCR-FIP scoping mission took place via video conference in October 2015. Joint mission was held in Tegucigalpa November 9-11, 2015, involving IBRD and IDB.
- X. Tunisia: Early dialogue has been held, and a scoping mission took place September 28-30, 2015.
- XI. Uganda: Joint PPCR-FIP Scoping Mission took place October 19-23, 2015 involving AfDB and IBRD.
- XII. Cambodia: Scoping mission took place December 17-18, 2015 with ADB.
- XIII. Rwanda: Joint PPCR-FIP scoping mission took place November 23-27, 2015 with AfDB and IBRD.

Annex 2: Resource Availability in the Forest Investment Program

Funding Classification	Commitment Items	Identifier	FIP	Grant	NonGrant
Unrestricted Funds in Hand	Cash and Investments		329.39		
	Unrestricted & Unencashed Promissory Notes		71.32		
	Total Unrestricted Funds in Hand	A	400.71		
Outstanding Commitments ^{1/}	Outstanding Project and program commitments		(241.50)		
	Outstanding Fee commitments		(0.08)		
	Outstanding Administrative Budget commitments		(0.79)		
	Total Outstanding Commitments Not Yet Transferred	B	(242.36)		
	Uncommitted Funds	C	158.34	58.41	99.93
Pending and Projected Commitments ^{2/}	Administrative Budget Pending Commitment		-		
	Projected Administrative Budget (FY17-FY21) ^{3/}		(14.20)	(14.20)	
	Pending and Projected Commitments	D	(14.20)	(14.20)	-
	Funds Available to support CIF Programming - End Dec. 2015	E	144.15	44.22	99.93
Pipeline	Program/Project Funding (<i>January 2016 onwards</i>) ^{4/}		(230.12)	(147.42)	(82.70)
	MDB Project Implementation and Supervision Services (MPIS/fees) ^{5/} - See schedule 2		(16.84)	(16.84)	
	Funding Decisions (<i>May 2015</i>) - See Schedule 1		(148.90)	(41.40)	(107.50)
	Total Planned Pipeline	F	(395.85)	(205.65)	(190.20)
	Programming Surplus/(Shortfall)	G	(251.70)	(161.43)	(90.27)
Future Funding	Receivables - UK Contribution		-	-	
	Pledges ^{6/}		60.02	60.02	
	UK Contribution - Provisional Account (net of reserves)		154.93	61.72	93.21
	Projected Investment Income		7.48	7.48	
	Total future funding	H	222.44	129.22	93.21
	Programming Surplus/(Shortfall) - exclusive of reserves	I	(29.27)	(32.21)	2.95
	Reserves ^{7/}	J	39.93	10.89	29.03
	Programming Surplus/(Shortfall) - inclusive of reserves	K	10.66	(21.32)	31.98

1/ Outstanding commitments are legally binding obligations which have been recorded in the Trustee's ledger.

2/ Represents amounts recently approved by the committee but not yet recorded by the Trustee as a legal obligation.

3/ Projection for administrative budget includes resources for administrative services provided by the CIF AU, Trustee and MDBs.

4/ Projects/programs for submission to committee for approval based on recent updates from MDBs. Also includes concepts approved for Brazil and Ghana for a total of \$35M.

5/ Fee balances from existing projects and projected fees for new countries and for DGM additional funding.

6/ This represents an indication of potential appropriation from U.S. Congress.

7/ This amount is withheld to mitigate the over-commitment risk associated with the potential impacts of exchange rate fluctuations on the value of non-USD denominated promissory notes.

Schedule 1**Funding Decisions during the May 2015 Meetings**

IPPG for New Countries (\$250K * 6)	1.50
IPPG for Additional Countries (\$250K * 9)	2.25
Approvals	(1.50)
Admin Budget Item	
Country Programming for New Countries (\$430K * 10)	4.30
Approvals	(2.65)
Funding Requirement	3.90
<i>DGM additional funding</i>	-
<i>Total target project funding for the 6 new countries (up to)</i>	<i>145.00</i>
Total Funding Requirement	148.90

Schedule 2 - MDB Project Implementation and Supervision Services(MPIS)

MPIS - existing pipeline	
Balance from IP Projects	3.31
MPIS - new funding decisions	
MPIS for new countries (\$634K * 6 * 2 projects)	7.61
MPIS for DGM additional funding (\$775K * 6)	4.65
MPIS for new concepts (Brazil/Ghana)	1.27
Total MPIS/Fees	16.84

Annex 3: Projects Awaiting Approval by FIP Sub-Committee for Over 24 months

IP/ DGM/ PSSA/ CA	COUNTRY	PROJECT TITLE	MDB	Public/ Private	FIP FUNDING ¹⁵	IP to SC Approval in Months ¹⁶
IP	Lao PDR	Protecting Forests for Sustainable Ecosystem Services	ADB	Public	12.84	48.3
IP	Ghana	Engaging the Private Sector in REDD+	IFC	Private	9.75	40.9
IP	Indonesia	Community-Focused Investments to Address Deforestation and Forest Degradation(CFI-ADD+)	ADB	Public	17.00	38.9
IP	Indonesia	Strengthening Forest Enterprises to Mitigate Carbon Emissions	IFC	Private	34.70	42.9
IP	Peru	Integrated Forest Landscape Management Along the Main Route Between Tarapoto and Yurimaguas in the Regions of San Martin and Loreto	IDB	Public	12.20	40.0
IP	Peru	Integrated Land management in Atalaya, Ucayali Region	IBRD	Public	12.20	26.0
IP	Peru	Integrated Landscape Management Along the Main Route Between Puerto Maldonado and Inapari and in the Amarakaeri Communal Reserve	IDB	Public	12.00	40.0
IP	Peru	Strengthening National Forest Governance and Innovation	IDB	Public	12.10	40.0
DGM	Ghana	DGM for Indigenous Peoples and Local Communities	IBRD	Public	5.50	31.0
DGM	Indonesia	DGM for Indigenous Peoples and Local Communities	IBRD	Public	6.33	26.0
DGM	Lao PDR	DGM for Indigenous Peoples and Local Communities	IBRD	Public	4.50	31.0
DGM	Mexico	DGM for Indigenous Peoples and Local Communities	IBRD	Public	6.00	31.0
PSSA	Brazil	Macauba Palm Oil in Silvicultural System	IDB	Private	3.00	29.5
PSSA	Burkina Faso	Climate change mitigation and poverty reduction through the	AfDB	Private	4.00	31.0

¹⁵ Excluding PPGs that were already approved

¹⁶ Based on expected date of FIP SC approval provided by the MDBs

		development of the cashew sector in Burkina Faso (Wouol project)				
PSSA	Ghana	Public-Private Partnership for restoration of degraded forest reserve through VCS and FSC certified plantations	AfDB	Private	10.00	26.0
PSSA	Mexico	Guarantee Fund for financing low carbon forestry investments	IDB	Private	3.00	31.0

Annex 4: Status of Delayed Projects

- I. Lao PDR (ADB) - Protecting Forests for Sustainable Ecosystem Services: Delays were due to staff changes at the Ministry of Natural Resources and Environment and changes in project processing priorities.
- II. Ghana (IFC) - Engaging the Private Sector in REDD+: After several attempts to identify bankable projects that meet FIP objectives and IFC's investment and Social and Environmental criteria, it appears unlikely that a project meeting these requirements will materialize the near-term. Under the circumstances, IFC is in discussions with the Government of Ghana and IBRD to reprogram the allocation for a potential IBRD operation.
- III. Indonesia (ADB) - Community-Focused Investments to Address Deforestation and Forest Degradation(CFI-ADD+): Delays associated with government counterpart staff changes, familiarization of new staff at the newly merged Ministry of Environment and Forestry, and revision of documents on Economic and Financial Analysis.
- IV. Indonesia (IFC) - Strengthening Forest Enterprises to Mitigate Carbon Emissions: The technical preparatory work for project identification and discussions with potential clients are ongoing. IFC is performing due diligence to identify an investable project and sponsor that meets the IFC fiduciary requirements, Social and Environmental Performance Standards and FIP criteria. Sponsor identification continues to be a challenge, especially in the context of the Indonesian forestry sector. Progress is steady, but slow, and will likely be that way to ensure that there are no compromises on the required due diligence for this work.
- V. Peru (3 projects, IDB) - Integrated Forest Landscape Management Along the Main Route Between Tarapoto and Yurimaguas in the Regions of San Martin and Loreto; Strengthening National Forest Governance and Innovation; and Integrated Landscape Management Along the Main Route Between Puerto Maldonado and Iñapari and in the Amarakaeri Communal Reserve: In July 2015, the Ministry of Finance (MEF) and Ministry of Environment (MINAM) agreed to prepare a Concept Note that would define the basic scope of the FIP investment proposal. The proposal was prepared by PNCB with the technical support from IDB and the World Bank. In October 2015, MEF and MINAM signed an agreement accepting the scope of the Concept Note. The agreement specified that four projects public investment projects would be designed, addressing all the aspects included in the first document approved by the FIP sub Committee. The agreement of the concept note enabled PNCB to submit to MEF the investment initiative file for each of the four public investment projects, which is required to begin the design under the SNIP scheme. The ToRs for the pre-investment studies of the four projects were prepared by PNCB with IDB's technical support. All the representatives of the FIP Steering Committee, plus the World Bank, reviewed and contributed to the final

version of the ToRs, which include requirements from SNIP, as well as those from the MDBs and FIP donors. In September 2015 IDB published an international request for expressions of interest to identify companies/consortiums interested in formulating tree of the four pre investment studies. In October PNCB and IDB prepared a short list of six (06) companies/consortiums from a total of 25 expressions of interest that were received. Request for proposals were sent to the shortlisted companies. A total of four technical and economic proposals were received by the end of December. Proposals were assessed by an Evaluation Committee appointed by the FIP Steering Committee. IDB and MINAM are currently negotiating the contract with the company that obtained the highest scores in the evaluation. The execution of the pre-investment studies is expected to begin in the first half of April. The first stage of the pre-investment studies (profile) will take 4 months, while the final stage (feasibility) will take 8 additional months.

- VI. Brazil (IDB) - Macauba Palm Oil in Silvicultural System: Submission delayed given difficulties reaching agreement over capital structure and disbursement sequencing. IDB continues to explore solutions with project sponsor, and will define viability of project going forward by mid-2016.
- VII. Mexico (IDB) - Guarantee Fund for financing low carbon forestry investments: Preparatory technical work has taken more time than planned given complexity of instrument. Project team has been working with close cooperation with national agencies to ensure alignment with country's led investment plan.