

## Forest Carbon Partnership Facility (FCPF)

### Readiness Fund

#### Enhancing Capacity for Dispute Resolution

*This Note responds to Resolution PC/10/2011/4 and proposes to enhance the Countries' and Delivery Partners' capacity to minimize and resolve potential disputes during the early stages of REDD+ Readiness and facilitate the full implementation of the Multiple Delivery Partner arrangement and the Common Approach. The key rationale is that REDD+ Readiness fosters important innovations in development finance for the land-use sector that require special types of support. To ensure that REDD+ Readiness activities perform as planned, an additional initial investment in the capacities of REDD+ Countries as well as their Delivery Partners (DP) is needed. The focus is on better identification of potential implementation risks, and strategic investments in structures and processes to address these issues constructively and preventively. The proposal consists of three components: (1) strengthening national feedback and grievance redress mechanisms in individual REDD+ countries; (2) enhancing preparation support, direct engagement and monitoring by DPs; and (3) reinforcing DP capacity for dispute resolution. While adoption of the full package would be optimal, Component 2 is a priority given the pressing need to sign Transfer Agreements between the Trustee and the DPs.*

#### Background

1. The PC has decided that Multiple Delivery Partners are needed to deliver the results sought by the FCPF.
2. The development of the Common Approach to Environmental and Social Safeguards for Multiple Delivery Partners (MDP) adopted as part of Resolution PC/9/2011/1 in Oslo in June 2011 ("Common Approach"), has helped to characterize some of the social and environmental risks to be addressed and mitigated during REDD+ Readiness.
3. For the MDP arrangement to become operational, each DP has to enter into a Transfer Agreement with the World Bank as the Trustee of the FCPF Readiness Fund. Transfer Agreements contain provisions on cost recovery by the DP from the Readiness Fund, including those costs associated with the DP's due diligence, monitoring and overall grant management. Reaching an agreement on cost recovery is a precondition to signing the Transfer Agreement and enabling each DP to become fully operational in its designated Pilot Countries.<sup>1</sup>
4. In the specific case of the Inter-American Development Bank (IDB), the PC9 Resolution further provided that the Transfer Agreement "shall provide for coverage by the FCPF Readiness Fund of any reasonable costs that the IDB incurs in making its accountability mechanism available to address claims

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<sup>1</sup> See the PC9 Resolution on Multiple Delivery Partners at <http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Jun2011/Resolution%201%20Common%20Approach.pdf> and the Common Approach at [http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Jun2011/FCPF%20Readiness%20Fund%20Common%20Approach%20\\_Final\\_%209-June-2011.pdf](http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Jun2011/FCPF%20Readiness%20Fund%20Common%20Approach%20_Final_%209-June-2011.pdf). Both documents also exist in French and Spanish.

associated with those specific provisions of the Common Approach in order to meet its commitment under Paragraph 36 of the Common Approach.” The PC9 Resolution also requested an assessment as to whether the Readiness Fund should cover the management costs, including potentially the incremental costs of the consultation phase of IDB’s accountability mechanism, associated with the processing of and response to claims under the accountability mechanism and the cost of action plans to address non-compliance with the Common Approach.

5. In the specific case of the United Nations Development Programme (UNDP), the PC9 Resolution further provided that the Transfer Agreement “shall provide for coverage by the FCPF Readiness Fund of reasonable costs to UNDP in making an independent safeguard expert or consultant available to receive and provide expert guidance on eligible complaints related to safeguards and the Common Approach. Such funding shall be limited to the period that UNDP serves as DP for FCPF Readiness grant agreements with the Pilot Countries, or until such time as UNDP decides on modalities for its accountability mechanism in accordance with Paragraph 36 of the Common Approach, whichever is sooner.”<sup>2</sup> In addition, the PC9 Resolution requested an assessment of whether costs similar to those incurred by IDB in making its accountability mechanism available might have to be covered if UNDP’s accountability mechanism, once established, is not available to respond to and address claims related to specific safeguards required by the Common Approach that are not otherwise covered by UNDP safeguard policies.”

6. The PC9 Resolution directed the Facility Management Team (FMT) to “work closely within the World Bank and with IDB and UNDP to assess experience regarding management response costs related to the use of accountability mechanisms similar to those costs which may be incurred under the Common Approach (...) As part of this effort the FMT should also recommend whether to set aside FCPF Readiness Funds to cover these costs and, if so, what level is needed; and an appropriate approach to allocating the resources to Delivery Partners. The FMT will engage PC Members and Observers throughout this effort, with a view toward recommending for approval by the PC, on a non-objection basis as soon as possible, an appropriate approach to these costs.”

7. In response to the PC9 Resolution, the FMT prepared FMT Note 2011-11 on a proposed treatment of the costs of accountability in the FCPF Readiness Fund. This Note was reviewed at PC10 in Berlin in October 2011.<sup>3</sup> At the heart of the proposal was the provisioning of five percent of Readiness Fund capital to cover part of future accountability costs on a contingent basis given that the filing of claims is inherently unpredictable, especially in a realm of activity with little history and a multiplicity of stakeholders. In its Resolution PC/10/2011/4, the PC took note of the proposal and requested more information from the FMT through a series of questions. The PC also requested the FMT to circulate a draft PC Resolution on the costs of accountability by January 15, 2012.<sup>4</sup>

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<sup>2</sup> These costs are not covered in this Note and will be treated in the Transfer Agreement with UNDP, but this arrangement triggered the focus on the incremental accountability and dispute resolution costs of all DPs, including the World Bank.

<sup>3</sup> See FMT Note 2011-11 at [http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Oct2011/3\\_FMT%20Note%202011-11%20Costs%20of%20Accountability%20DRAFT\\_Revised-10-14-11.pdf](http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Oct2011/3_FMT%20Note%202011-11%20Costs%20of%20Accountability%20DRAFT_Revised-10-14-11.pdf).

<sup>4</sup> See Resolution PC/10/2011/4 at <http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Oct2011/Final%20PC10%20Resolution%204%20-%20Multiple%20Delivery%20Partners.pdf>.

8. Bilateral discussions between the FMT and a number of PC members ensued, leading to this Note FMT 2011-12, which proposes a more preventive approach to risk management. The FMT has also prepared a separate document (FMT Note 2011-13) which answers the questions included in para.6 of Resolution PC/10/2011/4 and other related questions received since then. Moreover, the FMT has compiled comments received on a previous draft of this Note FMT 2011-12 and the FMT's responses to these questions in a matrix which is presented in a separate document (see FMT Note 2012-1).

### **Environmental and Social Safeguards in REDD+ Readiness**

9. Environmental and social safeguards and associated policies and procedures are designed to avoid, mitigate, or minimize adverse environmental and social impacts of projects and strategies, and to implement projects and strategies that produce positive outcomes for people and the environment.

10. The innovative REDD+ Readiness work undertaken under the FCPF Readiness Fund entails significant developmental changes that will generate important benefits but also touches upon sensitive issues that may affect a broad range of stakeholder interests. REDD+ is also still a new field, for which certain of the relevant rules and practices are not well-established or well-known.

11. REDD+ Readiness work is broad-based, cutting across several sectors of the economy depending on the drivers of deforestation and forest degradation in each country and involving a wide range of stakeholders, including rights-holders. National REDD+ policies required to be addressed in the Readiness phase have to deal with land administration, nationwide land-use planning, forest management, extractive industries, and infrastructure, among other sectors. Moreover, Readiness for REDD+ involves sensitive governance questions, including rights of Indigenous Peoples and local communities to land and forest carbon, public participation, potential restriction of access to natural resources, and the distribution of benefits.

12. On the one hand, the broad-based approach to REDD+ is expected to create sustainable development benefits given the degree of social engagement that is being fostered and the comprehensive vision of, and solutions to, pressures on forests from various corners of the economy. In this sense, REDD+ creates significant new opportunities and potentially high rewards. It could achieve a multiplicity of benefits including climate change mitigation, social improvements, and biodiversity and other environmental gains. This is what makes REDD+ compelling and motivated the creation of the FCPF and other REDD+ initiatives.

13. On the other hand, this broad-based approach to REDD+ also poses specific challenges for the REDD Country Participant and its partners, including the DP providing REDD+ Readiness services under the FCPF, especially in the early years when safeguards approaches to REDD+ Readiness are still being tested.

14. The cross-sectoral and multi-stakeholder nature of REDD+ Readiness makes it challenging for a Country's REDD+ strategy or action plan to be inclusive and participatory to the degree necessary. Innovative and robust strategies to address these issues are essential.

15. Whereas REDD+ Readiness in the FCPF context entails no investment projects on the ground and instead mostly consists of strategic planning and preparation, these strategic activities have potentially far-reaching impacts –intended to be positive – but, unless properly addressed, potentially also negative. A variety of communities and social groups may need special consideration and protection to avoid potential adverse impacts. Special economic interests may be challenged by REDD+ proposals. Because of these factors, the approach set out in the Common Approach utilizes a Strategic Environmental and Social Assessment (SESA). The strength of a SESA is that it combines analytical work

and consultation in an iterative fashion to inform the preparation of the REDD+ strategy. The SESA integrates key environmental and social considerations relevant to REDD+ at the earliest stage of decision-making. The SESA includes an Environmental and Social Management Framework (ESMF) as a distinct output. The ESMF is designed to provide guidelines for managing and mitigating the environmental and social risks related to future REDD+ investments and carbon finance transactions. Given the scope, complexity and multiplicity of actors, the need for dispute resolution is inherent.

## Proposal

16. The key rationale behind the allocation of additional funds is that REDD+ Readiness represents an especially deep engagement on controversial issues given its goal to provide development finance in the land-use sector. The core of the proposal contained in this Note is to enhance the Countries' and DPs' capacity to engage with a wide variety of stakeholders and resolve disputes as early as possible. To ensure that rules and procedures and mechanisms are in place for this purpose and perform as planned in this new environment, an additional initial investment in the capacities of REDD Country Participants and their DPs is needed for enhancing early actions, including risk prevention, detection and mitigation by REDD Country Participants and DPs. The proposal consists of three components:

- i. Component 1: Strengthening national REDD+ feedback and grievance redress mechanisms of participating Countries;
- ii. Component 2: Enhancing preparation support, direct engagement and monitoring by DPs; and
- iii. Component 3: Reinforcing DP capacity for dispute resolution.

17. The proposed package seeks to optimize the roles of Countries and DPs in implementing REDD+ Readiness. However, component 2 is a priority without which the DPs cannot enter into the Transfer Agreements with the Trustee and the MDP arrangement cannot be implemented. All three components require additional resources relative to what the PC has previously authorized for grants (in the case of component 1) or to the long-term financial projections (in the cases of components 2 and 3).

### *Component 1: Strengthening national feedback and grievance redress mechanisms of participating Countries for REDD+*

18. Rationale: The complexity of issues and diversity of actors involved in REDD+ Readiness may lead to numerous questions, inquiries, and grievances about the REDD+ Readiness strategy or process. Transparent information sharing and consultations are the foundation of the implementation of Readiness Preparation Proposals (R-PPs). It is mandated by the R-PP template that a national feedback and grievance redress mechanism be effectively available, and if necessary strengthened, as part of the country's REDD+ institutional arrangements.<sup>5</sup> Such a mechanism needs to be available to REDD+ stakeholders from the earliest stages of R-PP implementation in order to facilitate handling of any request for feedback or complaint by any REDD+ Readiness stakeholders, wherever they originate, with particular attention to providing access to geographically, culturally or economically isolated or excluded groups.

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<sup>5</sup> This requirement was sketched in version 5 and fleshed out in version 6 of the R-PP.

19. Scope: The additional funding would normally cover the following, or similar, activities, based on country needs and in agreement with national and local authorities: (i) assessment of existing national institutional capacity for feedback and grievance redress;<sup>6</sup> (ii) a staff position(s) tasked with performing the function, i.e., receiving requests and initiating the right process to respond to them, at least for the duration of the FCPF Readiness Preparation grant, in either an existing or new institution;<sup>7</sup> (iii) capacity building on REDD+ Readiness and FCPF for key stakeholders and personnel; (iv) technology for access points to the function; and (v) cost of operating the database of requests or complaints. Where appropriate and necessary, operational teams from the DPs would provide appropriate advice and guidance on strengthening national feedback and grievance redress mechanisms.

20. Budget need: It is estimated that funding in the range of \$100,000 to \$200,000 per active REDD Country Participant would be required to cover the use or establishment of the feedback and grievance redress mechanism.<sup>8</sup> The additional funding amount would differ by country, depending mainly on the availability of in-country institutions to take on the role of feedback and grievance redress mechanism or a new entity needs to be set up for this purpose, geographical dispersion and complexity. For the larger countries, the funding required might be greater than \$200,000 due to the challenges in communication, the complexity of issues requiring responses, etc. Depending on country circumstances, the total requirement to top up Readiness preparation grants to countries would be in the range of \$3.7 million to \$7.4 million, assuming 37 active REDD Country Participants (less if fewer active countries; more if the FCPF were to be reopened to more countries). In addition, the PC would be requested to approve an increase in the standard level of these grants from the current \$3.6 million to \$3.8 million.

21. Operational aspects: The additional funding would be provided in the following manner:

- i. Through the Readiness Preparation grants that are still to be signed;
- ii. Through amendments to the country-executed Readiness Preparation grants that have already been signed (or, alternatively, through grants executed by the DPs on behalf of the REDD Country Participants, depending on the preference of the beneficiary); or
- iii. If necessary (e.g., due to institutional difficulties in amending existing grant agreements, or availability of funding from another source) through an alternative funding agreement acceptable to the DP and the REDD Country Participant and consistent with the R-PP implementation.

22. Only the level of funding justified in the R-PP as needed would be written in the grant agreement or amendment, so there would be no need to return unused funds.

### *Component 2: Enhancing preparation support, direct engagement and monitoring by DPs*

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<sup>6</sup> This first step could also be funded separately in the case of complex and large countries to better understand the costs and feasibility of the implementation arrangements for the mechanism.

<sup>7</sup> The job description for this position would entail the following: (i) ensure citizen awareness and accessibility (templates, information, etc.); (ii) maintain access points (phone, written correspondence, email, web, etc.); (iii) receive and sort questions, requests and grievances; (iv) coordinate with appropriate people/entities for effective response; (v) track, monitor requests with a simple database and correspond with claimants; (vi) review and report on grievance trends; (vii) manage a roster of third-party neutral professionals if necessary; and (viii) prepare terms of reference/manage contracts for these professionals.

<sup>8</sup> Section 1a of version 6 the R-PP template (National Management Arrangements) contains the guidelines on feedback and grievance redress mechanisms.

23. Rationale: The capacity of operational teams deployed by the DPs (namely the World Bank, the IDB and UNDP in the pilot phase of the MDP arrangement) should be strengthened so they can provide closer support to the REDD Country Participants before and after signature of the Readiness agreements. This enhancement would improve the ability of these teams to prevent, detect, analyze, mitigate and address the full range of issues and concerns associated with REDD+ Readiness as described above, which are greater than those commonly arising from grants of similar levels managed by the DPs for other activities.

24. Scope: The additional resources would finance activities conducted by DPs in accordance with the FCPF Charter and Common Approach to enhance the quality of REDD+ Readiness services to the REDD Country Participants, conduct more intensive due diligence and monitoring/supervision of the REDD+ Readiness activities and ensure compliance with the DPs' policies and procedures until completion of the grant-financed activities and the Readiness Phase. Specifically, the additional resources would be deployed to intensify current efforts and strengthen the presence of the DP teams on the ground to:

- i. Boost the specific technical expertise available from the team to support REDD Country Participant activities, including the following:
  - (a) Enhanced monitoring/supervision of all Readiness activities;
  - (b) Independent expert services for specific technical issues identified by the Country or key stakeholder groups, or as required by the Common Approach, particularly in challenging areas such as national grievance redress, forest governance and certification, and benefit sharing;
  - (c) More direct support by operational teams to governance improvements, including grievance management at the country level.
- ii. Enhance stakeholder engagement through additional consultations with a more active role of the DP as convenor, facilitator or observer in the consultation process, for example by:
  - (a) Providing flexibility to the operational team in convening meetings and closing logistical, technical and capacity gaps among stakeholders, including support for third-party participation, travel for stakeholders, and outreach;
  - (b) Developing and disseminating information materials and guidelines on REDD+.
- iii. Increase the team's monitoring capability to address complex or conflictive situations, including those related to compliance assurance and accountability where needed.

25. These activities will always be conducted in agreement and with the involvement of representatives of the REDD Country Participant to ensure consistency with countries' needs and ongoing capacity-building. It is not possible to predict exactly how resources would be allocated in each country, as the needs will vary from one country to the next.

26. The goal of component 2 is clearly to deal with issues preventively or at least early. However, it is not possible to eliminate the risk of a claim being brought to the independent accountability mechanisms in place at a DP for an alleged breach of the DP's policies and procedures. In such an eventuality, the operational team would have to respond to the claim in the context of the team's administrative responsibilities, and should therefore be able to use some of the funds under this component.

27. Budget need: DP teams need an estimated \$650,000 per country or between \$130,000 and \$150,000 per year for each REDD country participant for the estimated duration of the REDD+ Readiness services.<sup>9</sup> The current annual allocation of \$80,000 to World Bank teams is insufficient to cover the cost of providing the necessary support and engagement described in component 2. This reflects the World Bank experience accumulated to date, and estimates from IDB and UNDP based on their own experience with similar investments, and in the case of IDB with consultation efforts to resolve other types of disputes. Based on the updated estimate of \$650,000 per country and assuming 37 active REDD Country Participants, the total estimated cost for this component would be about \$24 million. The latest long-term plan estimate, which included actual costs to date plus some anticipated increases in annual allocations and the number of years of engagement, was approximately \$20 million. Therefore additional resources in the amount of approximately \$4 million would be required over and above that latest long-term plan estimate (less if fewer active countries; more if the FCPF were to be reopened to more countries).

28. Operational aspects: The additional support would be channeled to each DP in accordance with its administrative procedures as part of its overall administrative fee. In the case of the World Bank, the work program agreement procedures would be followed.<sup>10</sup> In the cases of IDB and UNDP, the additional support would be channeled according to the following schedule:

- i. \$400,000 per pilot country approved by the PC upon signature of the Transfer Agreement; and
- ii. \$250,000 during implementation upon request by the DP to the Trustee.

29. Financial management and reporting arrangements would follow normal practice: (i) the PC would approve annual budgets based on the FMT's proposal; (ii) the FMT would report on detailed annual budget realizations; (iii) the DP would be able to use the funds differentially across countries; (iv) the DP would be able to carry over funds from one fiscal year to the next; and (v) unused funds would be surrendered at the end of the reference period, as agreed with the Trustee. In addition, early reporting of lessons learned, including actual costs, would make this a transparent undertaking.<sup>11</sup>

### *Component 3: Reinforcing DP capacity for dispute resolution*

30. Rationale: The national feedback and grievance redress mechanisms supported under component 1 and the support provided by DPs under component 2 may not be sufficient to mediate and resolve complex issues, thus requiring additional efforts and resources to attempt to reach resolutions.

31. Scope: DPs have in-house, or can access independent, capacity to provide assistance through facilitation, mediation and dispute resolution in matters pertaining to REDD+ Readiness. Such services can be provided by the DP's own mediation and conflict resolution function and/or national and international mediators, and aim at supporting inclusive and participatory processes by addressing

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<sup>9</sup> This would afford approximately eight more staff weeks and two more trips per active country per year. This increase would enable the funding of 15 staff weeks and six trips (the level and composition of expenses varies considerably from one country to the other). For comparison, it may be useful to refer to budget allocations in use in the Forest Investment Program (see Annex 1 for more details).

<sup>10</sup> To date, funds for country implementation support have been provided to the World Bank's operational teams on an annual basis.

<sup>11</sup> This could be part of the agreed lessons learned exercise on the Common Approach under the leadership of the Meridian Institute or another organization.

concerns or complaints early and working with the relevant parties to come to appropriate outcomes, thereby reducing unnecessary escalation. These functions are different than the independent accountability mechanisms in place at the DPs (e.g., the Inspection Panel at the World Bank), in the sense that they are exercised more upstream.

32. **Budget need:** Experience demonstrates that costs of \$50,000 to \$100,000 would likely be incurred per country when deploying such resources, the use of which had not been provisioned to date. As a result, it is proposed to retain up to \$2 million, assuming 37 active REDD Country Participants (less if fewer active countries; more if the FCPF were to be reopened to more countries).

33. **Operational aspects:** The funds would be held as a temporary reserve in the Readiness Fund and be available to each DP, in agreement with the REDD Country Participant, to support its internal mediation and conflict resolution functions and/or access national and international facilitators and/or mediators for the duration of the REDD+ Readiness activities. The exact modalities would have to be determined and agreed among the DPs and by the PC but would likely involve the following elements: (i) the DP would request the FMT to access the reserve if a conflict has arisen in the country which the national grievance redress mechanism and the DP's team are unable to resolve by themselves, in an effort to find practical remedies and solutions on the ground; (ii) the DP would submit a budget proposal to the FMT reflecting the proposed steps; and (iii) there would be caps on the level of requests per country and/or DP. The unused funds at the time of terminating the reserve would be reprogrammed to Readiness activities to the extent possible.

### Summary and Financing Requirements

34. The overall proposal is summarized in the table below:

Component	Goal	Financial requirement from FCPF
1. Strengthening national feedback and grievance redress mechanism for REDD+	To handle any request for feedback or complaint that stakeholders may have about REDD+ Readiness activities in the country	\$3.7-7.4 million* (grants to REDD Country Participants)
2. Enhancing DP preparation support, engagement and monitoring	To provide closer support to the REDD Country Participants before and after signature of the Readiness Preparation grant agreements and enhance capacity to respond to stakeholder demands and compliance related issues, including compliance assurance and accountability where needed	\$4.0 million*
3. Reinforcing DP capacity for dispute resolution	To complement the national feedback and grievance redress mechanisms and the support provided by DPs with dialogue and mediation function in the case of particularly challenging disputes	\$2 million
<b>Total</b>		<b>\$9.7-13.4 million*</b>

\* Assuming 37 active REDD Country Participants (less if fewer active countries; more if the FCPF were to be reopened).



35. The financing requirements for the proposed measures above would take priority over the measures identified in the following paragraphs of Resolution PC/10/2011/1 of October 2011 on the Strategic Direction of the FCPF:

- i. Paragraph 5 (additional grant funding of up to \$5 million to some countries);
- ii. Paragraph 6 (analytical work, knowledge management, South-South exchange and linkages between REDD+ and FLEGT); and
- iii. Paragraph 11 (potential grant funding for new REDD+ countries that may be selected into the FCPF in the future).

36. The financing requirements for the proposed measures above would not take precedence over the measures identified in the following paragraphs of Resolution PC/10/2011/1:

- i. Paragraphs 2-3 (standard allocation of \$3.6 million in Readiness grant resources to REDD Country Participants whose R-PP is assessed by the PC at or before PC14);
- ii. Paragraph 9 (\$5.5 million for the period FY2012-2015) for the enhanced support for engagement of CSOs and Forest-Dependent Indigenous Peoples and Forest Dwellers in REDD+ readiness process); and
- iii. Paragraph 10 (up to \$1 million for participation of Southern CSOs in FCPF meetings and dialogues with the Indigenous Peoples on FCPF).<sup>12</sup>

### Next Steps

37. The following steps are proposed:

- i. The PC would be asked to approve the Resolution on a no-objection basis by February 17, 2012;
- ii. If necessary, changes to the Note and Resolution may be made before February 28, 2012 to secure PC approval by this date;
- iii. Failing that, the FMT would table a new proposal for PC consideration at its eleventh meeting on March 28-30, 2012.

38. In case the approval of the PC Resolution is delayed beyond February 2012, the PC is kindly requested to consider authorizing the FMT to enter into Transfer Agreements with the IDB and UNDP based on the proposed resource allocation under component 2 to avoid undue postponements in the implementation of the MDP arrangement.

39. At the latest in 2014, implementation of the three components would be evaluated with a view to deciding whether to limit, adapt or extend them based on lessons learnt. In the interim, the FMT and DPs would report to the PC on progress in the implementation of the three components and bring any issues to the PC's attention.

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<sup>12</sup> Resolution PC/10/2011/1 is available at <http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Oct2011/Final%20PC10%20Resolution%201%20-%20strategic%20direction.pdf>.

## **Annex 1: Budget allocation process under the Forest Investment Program**

### **Forest Investment Program (FIP)**

The FIP provides up to \$388,000 for covering the Multilateral Development Bank's (MDB) costs of preparing a national Investment Plan. The \$388,000 is made available to the MDB after the selection of the pilot country in the FIP and upon approval by the MDB Committee. Once the Investment Plan is endorsed, the country and the MDB(s) begin to prepare the projects outlined in the Investment Plan for approval of FIP and other funding. These projects can be categorized as follows:

- i. Investment financing (blended MDB operation or add-on to an existing MDB operation);
- ii. Stand-alone capacity building projects; and
- iii. Stand-alone investment projects.

For each of these categories, the MDB costs for preparation and supervision may vary. For example, a total of \$445,000 is provided to an MDB in support of the preparation and supervision of a stand-alone capacity development project. Half of the MDB budget for project preparation and supervision is made available upon endorsement by the FIP Sub-Committee of the Investment Plan and the remaining half is made available upon approval of the project by the FIP Sub-Committee (prior to MDB Board approval). The FIP financing for MDB project preparation and supervision covers, depending on the project category, a period of between three and six and a half years.<sup>13</sup> FIP's greater project focus tends to facilitate the application of safeguards and avoid the challenges of the Readiness phase.

The FIP budget allocation process can be considered broadly comparable to that under the FCPF, which entails the formulation of the national R-PP and its assessment by the PC, followed by the signature of the Readiness Preparation grant agreement by the DP.

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<sup>13</sup> For more information, please refer to the Strategic Climate Fund (SCF) paper titled "MDB Project Implementation Services under SCF's Targeted Programs: Sources of Funding and Implementation Arrangements" available at [http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SCF%206%20MDB%20project%20implementation%20services%20under%20SCF\\_0.pdf](http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SCF%206%20MDB%20project%20implementation%20services%20under%20SCF_0.pdf).