

CLIMATE INVESTMENT FUNDS

FIP/SC.13/5
October 17, 2014

Meeting of the FIP Sub-Committee
Washington, D.C.
November 19, 2014

Agenda Item 5

RECOMMENDATIONS BASED ON THE ASSESSMENT OF THE SCF PRIVATE SECTOR SET-ASIDES

(SUMMARY)

PROPOSED DECISION

The FIP Sub-Committee reviewed document FIP/SC.13/5, *Recommendations based on the Assessment of the SCF Private Sector Set-Asides* and the information document CTF-SCF/TFC.13/Inf.5, *A Review of the Private Sector Set-Asides of the Strategic Climate Fund* and welcomes the findings and measures to further enhance the private sector set-aside mechanism established under the targeted programs of the SCF.

The FIP Sub-Committee agrees to take into account the findings and proposed improvement measures when discussing document FIP/SC.13/6, *Further Elaboration of the Options for the Use of Potentially New Funds under the Forest Investment Program*.

I. INTRODUCTION

1. The private sector set-aside mechanisms established for the targeted programs under the Strategic Climate Fund (SCF) – FIP, PPCR and SREP - were designed to incentivize private sector engagement in SCF pilot countries in support of low-carbon development and climate resilience development goals.

2. After completion of the first and second rounds of calls for proposals in the SCF targeted programs, each Sub-Committee requested the CIF Administrative Unit, in collaboration with the MDBs and the pilot countries, to collect lessons and reflections about the effectiveness and value-added of the SCF set aside mechanism and the competitive selection process with a view to drawing lessons for the future¹.

3. The CIF Administrative Unit commissioned a study, reflecting on the experiences in SCF pilot countries with the use of the set-aside mechanism as a means to incentivize additional private sector operations in the FIP, PPCR and SREP. The report identifies recommendations on how to enhance the mechanisms to attract innovative private sector interventions in each targeted program.

4. Information document CTF-SCF/TFC.13/Inf.5, *A Review of the Private Sector Set-Asides of the Strategic Climate Fund* presents the consultant report completed by VIVID ECONOMICS. Guidance to the consultant team was provided by the CIF Administrative Unit and the MDBs.

II. SUMMARY OF FINDINGS

5. The assessment paper identifies four key constraints with the current private sector set-aside process:

- a) integration of the set-asides into MDB processes;
- b) geographic restrictions within and on the countries eligible to apply for the set-asides, which has limited the number of high quality projects submitted and accepted;
- c) the terms on which resources are available, and uncertainty over those terms, that has also limited the number and diversity of concepts submitted and;
- d) a lack of awareness and, in some cases, capacity of potential project developers has also proved challenging.

¹ PPCR: *“Procedures for allocating PPCR Resources on a competitive basis from an agreed set aside of resources.”* February 25, 2013, paragraph 17. FIP: *“Procedures for allocating FIP Resources on a competitive basis from a set asides.”* November 28, 2012, paragraph 13. SREP: *“Procedures for allocating SREP Resources on a competitive basis from a set asides.”* April 9, 2013, paragraph 15.

III. RECOMMENDATIONS TO IMPROVE THE SCF SET-ASIDE MECHANISM

6. Based on the assessment and lessons learned from processing the first ‘calls for proposals’ under the SCF private sector set-asides, the CIF Administrative Unit and the MDBs suggest that the governing bodies of the FIP, PPCR and SREP take into account the following recommendations when considering options for the use of new SCF resources should they become available²:

- a) **Establishment of an annual envelope of funding:** this structural change will provide more predictability of funding availability and allow for several dates for concept submission to regularize the timing of the call and allow time sensitive concepts to get endorsement and prevent low quality concepts from premature submission.
- b) **Expanded geographic coverage of concepts eligible for the private sector set-asides within and beyond currently eligible countries:** this will address the challenge of geographic restrictions and result in improved number of high quality projects submitted and accepted.
- c) **Grant funding availability for concept and project proposal development and implementation:** Grants for preparing concepts will help with preparing high quality and innovative proposals. Grants for investments will encourage innovative projects structured in such a way to attract greater private investment through competitive allocation of subsidies.
- d) **Place less emphasis on MDB co-finance in evaluating and selecting concepts:** this will also address the difficulties faced in terms of integration of the set-asides within processes of some MDBs.
- e) **Clarify and increase the availability of and local currency loans** and identify the types of project that will be prioritized for its use: this addresses the identified constraint of available resources and terms.
- f) **Consideration of both project and programmatic proposals:** this will also address the difficulties faced in terms of integration of the set-asides within MDB processes and result in improved number of high quality projects submitted and accepted.
- g) **Inclusion of pilot country consultations in establishing country based themes for concepts:** this will help identify a scope for concepts in support of private sector investment and better target developers.

² The suggested recommendations include variations of incremental measures 1 through 6 and the “compromise approach” under the structural reforms in the SCF/TFC.13/Inf.5, *A Review of the Private Sector Set-Asides of the Strategic Climate Fund*.

- h) **Enhanced outreach to make the set-aside mechanisms better known in the pilot countries:** this will also help improve the awareness and capacity of developers and increase the country and concept alignment.