

# CLIMATE INVESTMENT FUNDS

CTF/TFC.11/10

April 10, 2013

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Meeting of the CTF Trust Fund Committee

Washington D.C.

May 2-3, 2013

Agenda 11

## **PROPOSAL FOR FURTHER ENHANCEMENT OF CTF PIPELINE MANAGEMENT**

## **PROPOSED DECISION**

The Trust Fund Committee, having reviewed document CTF/TFC.11/10, *Proposal for Further Enhancement of CTF Pipeline Management*, welcomes the proposal to strengthen pipeline management. The Committee endorses the proposed measures, including assigning priority to readiness in the pipeline management process and shortening the timeframes for the agreed milestones.

The Committee agrees that a single pipeline of CTF projects based on endorsed investment plans should be managed and that an over-programming rate of 30 percent based on CTF pledged resources is a reasonable target. The Committee further agrees that over programming of pledged resources should be reviewed annually with a view to maintaining a robust pipeline, and that additional projects and proposals to include in the pipeline may result from second stage plans from any country that has made significant progress in the implementation of its endorsed investment plan, an endorsed investment plan in a new country for which the Committee authorized development of an investment plan in the country, and other programs that may be agreed by the Trust Fund Committee.

[The Committee requests the CIF Administration Unit and the MDB Committee to track separately commitments made pursuant to the first thirteen investment plans, or revisions of those plans, to ensure that resources committed to such projects and programs do not exceed the amount of funding available from contributions made in accordance with pledges made prior to October 2010. If a project or program is proposed for inclusion in the annual approval calendar for which there is not sufficient commitment authority under such initial pledges, the project or program should not be included in the annual approval calendar without the explicit authorization of the Trust Fund Committee.]

## **I. INTRODUCTION**

1. At its meeting in November 2012, the Trust Fund Committee requested the MDB Committee and the CIF Administrative Unit to develop a proposal for a long-term solution for the management of the CTF pipeline for consideration by the Trust Fund Committee. This paper is in response to that request.

## **II. BACKGROUND: CURRENT PIPELINE MANAGEMENT PRACTICES**

### **Phase I**

2. Development of the current CTF pipeline has been based on projects<sup>1</sup> identified in the investment plans endorsed by the Trust Fund Committee and the available pledges and contributions to the CTF. For the 13 Phase I investment plans (endorsed before October 2010), the amount of funding requested in the endorsed investment plans matched the initial pledges and contributions to the CTF. Hence, the original CTF pipeline consisted of all projects in the 13 investment plans.<sup>2</sup>

3. In order to match the approval of Phase I projects with cash contributions, the Trust Fund Committee approved in December 2011 a pipeline management system. According to this system, the pipeline is managed on a fiscal-year basis (from July 1 to June 30) with a 12-month horizon. Prior to the start of the fiscal year, the MDB Committee, based on the projection of resources provided by the Trustee, agrees on an overall programming figure for the fiscal year, and the MDBs propose a month-by-month forecast of projects to be submitted to the Trust Fund Committee for funding approval. The pipeline is kept under review on a quarterly basis, and the proposed project approval calendar is updated and revised to reflect changed circumstances.

4. The pipeline management system is based on project readiness as a key criterion.<sup>3</sup> Other criteria to be taken into account to prioritize projects should the expected demand for financing exceed the funds available for commitment include regional balance, public sector-private sector distribution, technological/sectoral diversity, and co-financing opportunities.

5. Since by and large cash contributions to the CTF have outpaced the projects that are ready to move into the annual approval calendar, in practice projects proposed by the MDBs have been included in the annual approval calendar without the need to apply the pipeline management criteria. Furthermore, submission of project proposals for approval of CTF funding has often lagged behind projections in the annual approval calendar.

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<sup>1</sup> Throughout this document the word “project” is used in a generic way, encompassing both projects and programs.

<sup>2</sup> For investment plans that requested multiple stages of funding, only the first-stage activities were included in the pipeline.

<sup>3</sup> “Resources should only be committed for projects or programs that are ready to move forward to final approval and implementation so that CTF resources are effectively and efficiently used for on-the-ground activities. Hence, programming projections should be as realistic as possible with regard to the timing of program or project committing resources, including the expected date of final MDB approval, so that the MDB Committee can accurately predict resource needs and cash flows.” See *CTF Guidelines for Management of Pipeline and Revision to Investment Plans*, December 15, 2011.

## **Phase II, first tranche**

6. Since October 2010, the Trust Fund Committee has endorsed investment plans beyond the available pledges and contributions to the CTF (Phase II), with the provision that funding of the projects in the investment plans would be contingent upon the availability of funds beyond what was planned for in the Phase I pipeline. In May 2012, new contributions were made, and the Trust Fund Committee approved the release of one tranche of indicative funding allocation (USD 416 million) for the three Phase II countries (Nigeria, India, and Chile). These resources were distributed among the three countries proportionally to the full amount requested in their respective investment plans.<sup>4</sup> Subsequently, the countries decided what priority projects would be funded with the available resources, on the basis of country priorities and project readiness. All these projects were included in the CTF pipeline.

## **Phase II, second tranche**

7. In November 2012, as further resources became available, and as the Trust Fund Committee agreed that resources released from Phase I countries (i.e., Thailand) would be made available to Phase II countries, the Trust Fund Committee requested the MDBs and the CIF Administrative Unit to develop and apply an interim solution to the allocation of CTF resources to Phase II investment plans, “which would take into account project readiness and the need for fast disbursement of any released funds”. Furthermore, the Trust Fund Committee endorsed a second stage of projects under the Investment Plan for Turkey (Turkey-2) and agreed that funds could be made available through Phase II of the CTF.

8. The MDB Committee was then tasked with allocating the available USD 251 million among the unfunded projects under the investment plans of the three Phase II countries and Turkey-2 (totaling USD 949 million). The MDBs agreed that readiness should be the only criterion to be considered in determining which project should be financed with the available resources. A pipeline of projects from the four countries was thus decided by consensus by the MDB Committee, which was communicated to the Trust Fund Committee by the CIF Administrative Unit on February 5, 2013.

9. To sum up, as of today three approaches to pipeline management have been in place. They are summarized in Table 1 below.

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<sup>4</sup> The Trust Fund Committee’s decision allowed the MDB Committee to adjust this indicative allocation, so that resources not utilized by one country could be allocated to another, in order to better match required project amounts. In reality, the countries opted to adjust their projects in order to match the available allocations, and consequently the allocations were not adjusted.

**Table 1: Summary of CTF Pipeline Management Approaches**

|                                    | Phase I (2009 – Present)  | Phase II (2011 – Present)   |   |
|------------------------------------|---|---|---|
|                                    |   | Tranche 1   | Tranche 2   |
| Pipeline entry                     | All projects under the endorsed investment plans entered the pipeline, matched with available pledges and contributions.  | Projects entered the pipeline based on country priorities and available new resources, allocated proportionally to the total funding requests among the three Phase II countries. | Projects entered the pipeline based on available new resources allocated by the MDB Committee among the three Phase II countries and Turkey-2, taking into account readiness criterion. |
| Amount (Million USD)               | 4,220   | 416   | 251   |
| Inclusion in the approval calendar | Projects are included in the approval calendar according to projections submitted by the MDBs with readiness as a primary criterion. If projections for requested funding were to exceed projections for commitment authority provided by the Trustee, agreed criteria for pipeline management would apply. | Selected projects are included in the approval calendar based on country prioritization and MDB projections.  | Projects are included in the approval calendar based on MDB projections and readiness criteria as applied by the MDB committee.   |

### III. LESSONS LEARNED

10. During the first three years of CTF operations, about half of the projects in the CTF pipeline advanced fairly quickly, leading to funding approvals by the Trust Fund Committee and some implementation on the ground. The remaining projects in the pipeline are more complex to develop/structure, have moved more slowly or encountered various difficulties. Consequently, a number of investment plans have been revised or are in the process of being revised (see Annex I).

11. Implementation of the CTF during the past four years has pointed to several lessons learned: country readiness and conditions for transformation were not always in place; changes in sectors required new solutions; in many cases readiness of projects was not a factor taken into account when preparing the investment plans; countries faced unexpected political and/or economic events; and some technologies and markets have turned out to be more challenging than originally anticipated. Furthermore, the approach followed for Phase I investment plans, namely, having a pipeline that does not exceed the pledges and contributions, has slowed down the implementation of the CTF, as projects are inherently subject to delays.

12. This proposal seeks to enhance the management of the CTF pipeline so as to improve the efficiency and effectiveness of CTF resource utilization.

### IV. PROPOSED MEASURES

13. This proposal for further enhancement of CTF pipeline management includes three interrelated elements:

- a) applying readiness-based pipeline management;

- b) shortening the timeframes and improving milestones for project delivery; and
- c) allowing over-programming.

### **Readiness-based pipeline management**

14. The MDB Committee and CIF Administrative Unit will review the pipeline on a quarterly basis and update the annual approval calendar semi-annually. Project readiness will be the only criterion used to determine which projects are included in the annual approval calendar.

15. In order to be eligible for inclusion in the CTF annual approval calendar, project concepts need to have achieved the following readiness milestones:

- a) For public sector projects:
  - i. project concept (or equivalent) approved by MDB management;
  - ii. feasibility study completed or initiated for projects that require extensive feasibility study; and
  - iii. government request for project funding, including CTF and MDB co-financing, received and project included in the government borrowing plan (or equivalent).
- b) For private sector projects:
  - i. initial project concept (or equivalent) approved or under review by MDB management;
  - ii. operation leader assigned; and
  - iii. inclusion in the MDB's project tracking system.

16. The MDB Committee and the CIF Administrative Unit will review all eligible projects and include them in the annual approval calendar taking into account the Trustee's projection of available commitment authority. If eligible projects exceed the available resources, prioritization within the pipeline will be based on readiness.

### **Shortening the timeframes for project delivery**

17. It is proposed that the timeframes approved by the Trust Fund Committee in May 2012 be shortened and that some milestones be removed.<sup>5</sup> Specifically, it is proposed that:<sup>6</sup>

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<sup>5</sup> The MDB Committee and the Trust Fund Committee may wish to consider that actions or consequences may be triggered if projects fail to meet the milestones, including removal from the pipeline.

<sup>6</sup> Longer timeframes may be requested when appropriate, but must be approved by the Trust Fund Committee at the time of submission of investment plans (or revised/updated investment plans) for endorsement or at the time of submission of projects/programs for funding approval.

- a) the timeframe from endorsement of an investment plan to submission of projects to the Trust Fund Committee for funding approval be reduced from 24 to 18 months;
- b) for public sector projects, the timeframe from Trust Fund Committee approval of funding to MDB approval of the project/program be reduced from 9 to 6 months;
- c) for private sector financial intermediary programs, the timeframe remain unchanged at 9 months;
- d) for private sector infrastructure projects/programs, the timeframe from Trust Fund Committee approval to MDB approval be reduced from 18 to 12 months;
- e) loan effectiveness and first disbursement milestones be removed as these are project specific and dependent on many factors outside of the control of the MDBs; instead, the MDBs provide indicative disbursement profiles for each project at the time of MDB approval;<sup>7</sup> and
- f) furthermore, in the case of programs comprising multiple sub-projects, it is proposed when a program is submitted to the Trust Fund Committee for funding approval, the Committee endorse the overall funding envelope for the program, approve the amount of funding for which sub-projects have met the readiness criteria, and delegate the MDB Committee to approve the remaining tranches of funding for subsequent sub-projects under the program taking into account the readiness criteria in paragraph 15(b).

18. In order to track and accelerate delivery of projects and programs for funding approval by the Trust Fund Committee and for MDB approval, the CIF Administrative Unit will notify the Trust Fund Committee during the first week of each month of the projects and programs scheduled for submission in the upcoming three months.

### **Over-programming**

19. Over-programming is a standard practice within the MDBs to ensure full delivery of a financial envelope in a fiscal year. The experience of the MDBs shows that some projects in the pipeline are bound to slip for various reasons or do not materialize at all, and over-programming allows for other projects to be brought forward for approval (based primarily on readiness) to fill any gaps. Over-programming would allow more projects in the CTF pipeline than the amount of pledged resources to ensure that CTF resources are efficiently and effectively channeled through programs and projects and that approval targets are met each fiscal year. Based on MDB evidence, a reasonable over-programming rate would be 30 percent.

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<sup>7</sup> For private sector projects, disbursements are made at the discretion of the borrower in line with terms and conditions in the signed documentation. Therefore, only an indicative disbursement schedule can be estimated for CTF purposes after MDB approval.

20. Two options are proposed below for over-programming. The MDB Committee strongly recommends Option A as the most efficient and operationally expedient.

#### *Option A*

21. Under Option A, it is proposed that Phase I and Phase II be merged as one pipeline that includes all projects identified in the CTF endorsed investment plans including those of Chile, India, Nigeria, and Turkey-2.<sup>8</sup> The merged pipeline would be approximately USD 5.59 billion (4.220 plus 1.365).

22. Total CTF pledges and contributions are approximately USD 4.97 billion.<sup>9</sup> As of end of March 2013, total Phase I and Phase II funding approved was USD 2.44 billion, leaving USD 2.53 billion (4.97 minus 2.44) of uncommitted pledges and contributions. Since total additional resources needed for the merged pipeline are USD 3.15 billion (5.59 minus 2.44), the current effective over-programming rate against pledges, if the two phases were merged, would be about 24.5 percent [(3.15-2.53)/2.53].

23. It is proposed that the CTF pipeline within the scope of the current pledges be allowed to grow by an additional [USD 150 million] to keep over-programming at a reasonable level [approximately 30 percent] given the expected attrition rates.<sup>10</sup>

24. The Trust Fund Committee may decide to allow the growth of the merged pipeline by (a) accepting second-stage investment plans from Phase I countries (in addition to Turkey) that have made significant progress in the implementation of their investment plans; (b) accepting investment plans from new countries, and/or (c) endorsing innovative purpose-specific programs or mechanisms, such as a global private sector program.

#### *Option B*

25. Option B would be similar to Option A with an additional requirement aimed at achieving separate tracking of commitments made pursuant to initial pledges to the CTF and those made pursuant to later pledges, recognizing the interest of some Trust Fund Committee members to distinguish new pledges and contributions to the CTF Trust Fund from the pledges and contributions made prior to October 2010 (the date currently used to distinguish Phase I and Phase II contributions.)

26. Under this option all projects would be included in a merged pipeline, as proposed in Option A. In addition, CTF funding committed to projects and programs included in the first thirteen CTF investment plans, or revisions of those plans with the same level of indicative allocated resources or less (currently Phase I), would be tracked to ensure that the resources committed to such projects and programs do not exceed the amount of funding available from contributions made in accordance with pledges made prior to October 2010. If a project or program is proposed for inclusion in the annual approval calendar for which there is not

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<sup>8</sup> In the case of India, this includes only the initial phase of projects with a total request of USD 775 million in CTF funding.

<sup>9</sup> Using exchange rates as of December 2012.

<sup>10</sup> Unfunded projects from merged Phase I and Phase II:  $5.59 - 4.97 = 0.62$ ; over-programming rate:  $(0.62 + 0.15)/2.53 = 30\%$ .



sufficient commitment authority under such initial pledges, the project or program should not be included in the annual approval calendar without the explicit authorization of the Trust Fund Committee. In this way, the Trust Fund Committee will be able to effectively monitor the use of CTF resources and ensure that commitments made consistent with pledges after October 2010 are not utilized to address a funding gap from insufficient commitment authority related to pledges made prior to October 2010 unless the Trust Fund Committee specifically authorizes it.

**Annex I: Status of CTF Investment Plans**  
(As of March 2013)

**Phase I**

|    | Country/<br>Region | Endorsement Date |            | Indicative<br>Allocation<br>(Million USD) | Funding<br>Approved<br>(Million USD) | Funding<br>Approval Rate | IP Update/<br>Revision |
|----|--------------------|------------------|------------|---|--------------------------------------|--------------------------|------------------------|
|    |                    | Original IP      | Revised IP |   |                                      |                          |                        |
| 1  | Colombia           | Mar-10           |            | 150.0                                     | 37.5                                 | 25%                      | May-13                 |
| 2  | Egypt              | Jan-09           | Nov-12     | 300.0                                     | 150.0                                | 50%                      |                        |
| 3  | Indonesia          | Mar-10           |            | 400.0                                     | 125.0                                | 31%                      | Mar-13                 |
| 4  | Kazakhstan         | Mar-10           |            | 200.0                                     | 101.2                                | 51%                      | May-13                 |
| 5  | MENA-CSP           | Dec-09           |            | 750.0                                     | 197.0                                | 26%                      | May-13                 |
| 6  | Mexico             | Jan-09           |            | 500.0                                     | 465.6                                | 93%                      | May-13                 |
| 7  | Morocco            | Oct-11           | Oct-11     | 150.0                                     | 125.0                                | 83%                      | Nov-13                 |
| 8  | Philippines        | Dec-09           | Aug-12     | 250.0                                     | 160.0                                | 64%                      |                        |
| 9  | South Africa       | Oct-09           |            | 500.0                                     | 450.0                                | 90%                      | Nov-13                 |
| 10 | Thailand           | Dec-09           | Feb-12     | 170.0                                     | 170.0                                | 100%                     |                        |
| 11 | Turkey             | Jan-09           | Nov-12     | 250.0                                     | 172.0                                | 69%                      |                        |
| 12 | Ukraine            | Mar-10           |            | 350.0                                     | 48.3                                 | 14%                      | May-13                 |
| 13 | Vietnam            | Dec-09           | Jun-11     | 250.0                                     | 60.0                                 | 24%                      | Nov-13                 |
|    | <b>Total (a)</b>   |                  |            | <b>4,220.0</b>                            | <b>2,261.6</b>                       | <b>54%</b>               |                        |

**Phase II**

|   | Country          | IP Endorsement Date | Released Funding<br>(Million USD) | Funding<br>Approved<br>(Million USD) | Funding<br>Approval Rate | IP Update/<br>Revision |
|---|------------------|---------------------|-----------------------------------|--------------------------------------|--------------------------|------------------------|
| 1 | Chile            | May-12              | 118.0                             | 118.0                                | 100%                     |                        |
| 2 | India            | Nov-11              | 375.0                             | 50.0                                 | 13%                      |                        |
| 3 | Nigeria          | Nov-10              | 135.0                             | 1.0                                  | 1%                       |                        |
| 4 | Turkey (Stage 2) | Nov-12              | 39.0                              | 0.0                                  | 0%                       |                        |
|   | <b>Total (b)</b> |                     | <b>667.0</b>                      | <b>169.0</b>                         | <b>25%</b>               |                        |

|  |                          |  |                |                |            |  |
|--|--------------------------|--|----------------|----------------|------------|--|
|  | <b>Grand total (a+b)</b> |  | <b>4,887.0</b> | <b>2,430.6</b> | <b>50%</b> |  |
|--|--------------------------|--|----------------|----------------|------------|--|