

# CLIMATE INVESTMENT FUNDS

CTF/TFC.11/16

April 16, 2013

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Meeting of the CTF Trust Fund Committee

Washington D.C.

May 2-3, 2013

## **PROPOSAL FOR REPORTING ON ENABLING ENVIRONMENTS FOR PROMOTING ENERGY INVESTMENTS**

## **PROPOSED DECISION**

The CTF Trust Fund Committee, having reviewed the *Proposal for Reporting on Enabling Environments for Promoting Energy Investment* approves the proposal and the proposed approach, timeline, and funding requirements.

## PREFACE

1. At its meeting in October 2012, the SREP Sub-Committee requested the MDBs to report, starting in November 2013, on progress in strengthening the institutional setting and enabling environment for promoting investments in renewable energy in all SREP pilot countries. The Sub-Committee also agreed to further discuss the frequency and the extent of reporting at its next meeting in May 2013. For this purpose, the Sub-Committee requested the CIF Administrative Unit to prepare, in collaboration with the MDB Committee, an outline of the content of such a report, together with proposals for a timetable, funding requirements, and suggestions for how reports produced in other fora could be used to monitor progress on the enabling environment in SREP countries.
2. In response to the above requests, the attached *Proposal for Reporting on Enabling Environments for Promoting Energy Investments* (document SREP/SC.9/4; see attachment) has been prepared. The proposal calls for the establishment of a global index of the business environment for energy to assess the enabling environment for promoting investments in renewable energy, energy efficiency, and energy access. Under the proposal, ten to twenty countries would be used to validate the indicators and methodologies, including six SREP countries and six to ten CTF countries. It is recommended, therefore, that CIF to contribute to the costs of the first year of activities, including the testing in twenty countries, and that funding be drawn equal from the CTF Trust Fund and the SCF Trust Fund.
3. The CTF Trust Fund Committee is requested to endorse the proposal for the establishment of the global index. The joint meeting of the CTF and SCF Committees is being requested to approve the budget.

## **I. INTRODUCTION**

1. At its meeting in October 2012, the SREP Sub-Committee requested the Multilateral Development Banks (MDBs) to start reporting in November 2013 on progress in strengthening the institutional setting and enabling environment for renewable energy in all SREP pilot countries. For this purpose, the Sub-Committee requested the CIF Administrative Unit to prepare, in collaboration with the MDB Committee, a proposal for reporting on the enabling environment for promoting investments in renewable energy in SREP countries. This proposal responds to that request and elaborates on a proposed approach, timeline, and funding requirements.

## **II. PROPOSAL**

2. The objective of this proposal is to create a framework for assessing the enabling environment for promoting investments in renewable energy, energy efficiency and energy access in SREP countries. This framework will also allow for the comparison and benchmarking of enabling environment conditions among countries as well as tracking progress over time. The use of this framework will ultimately help achieve SREP objectives of scaling-up the deployment of low carbon technologies in the energy sector. The framework would also be applied in the CTF.

3. It is proposed that a global index on the Business Environment for Energy (BEE) be designed to serve as such a framework. The BEE index would track policy indicators related to improving the business environment for investments in renewable energy, energy efficiency, and energy access in each country.

4. The objectives of the BEE index would include:

- a) to contribute to domestic policy debate by providing policy makers a global reference to identify what institutional, regulatory, and legislative systems support sustainable energy investments;
- b) to provide an objective comparison of the investment climate for supporting investment in renewable energy, energy efficiency, and access to energy, as a benchmark for monitoring progress over time; and
- c) to contribute to achieving SREP and CTF objectives and all three goals under the SE4ALL initiative by informing country level interventions<sup>1</sup>.

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<sup>1</sup> The SE4ALL initiative aims to i) provide universal access to modern energy services; ii) double the share of renewable energy; and iii) double the rate of energy efficiency improvements by 2030. The BEE index will also complement the SE4ALL Global Tracking Framework, which is designed to track progress toward the three SE4ALL goals. The BEE index will be able to cross-reference the Global Tracking Framework to help understand results, and the Global Tracking Framework will be able to draw upon results of BEE index, and cross-reference it accordingly. Input indicators to be included in the BEE index will be cross-referenced against outcome indicators captured through the Global Tracking Framework.

### III. RATIONALE

5. While global efforts to promote clean energy, achieve universal access, and mitigate climate change are synergistic and achievable, they will require trillions of dollars in global investment. This investment cannot be realized by public initiatives and funds alone: they demand a new level of public and private cooperation. Governments are responsible for creating a policy environment that encourages innovation, entrepreneurship, and private sector investment. With the premise that SREP and CTF objectives of scaled-up deployment of clean energy investments can only be met through strong private sector participation, partners have already been discussing which countries have the most suitable investment environments. There is a pressing need to develop a policy index to elucidate the suitability of the enabling environment particularly in SREP and CTF countries. The proposed index on the Business Environment for Energy (BEE) attempts to answer that concern.

6. The BEE index would permit the analysis of the progress on enabling environment conditions for each country, as a benchmark for monitoring progress over time. This is also an opportunity for SREP and CTF to scale-up the impact of this initiative at the global level by supporting the SE4ALL initiative and transform this ultimately to a global effort. The global scale up of the BEE index would allow for comparison among a larger pool of countries.

### IV. AUDIENCE

7. The primary audience for the index would be policy makers (since they are responsible for creating a strong enabling environment and the index should help stimulate policy dialogue and identify priority area for change) and management and staff of development institutions (including MDBs, bilateral agencies, and others). The secondary audiences include investors (e.g. the index could be used as an initial filter to help identify investment opportunities), service providers, academics, civil society, and the media.

### V. APPROACH

8. The World Bank Group would lead the preparation of the BEE index in close collaboration with other MDBs.

9. The BEE index would have an explicit focus on tracking policy indicators related to improving the business environment for investments in renewable energy, energy efficiency, and energy access in each country. The BEE index would add value to existing indices by bringing a stronger policy focus with global coverage on the aforementioned areas.

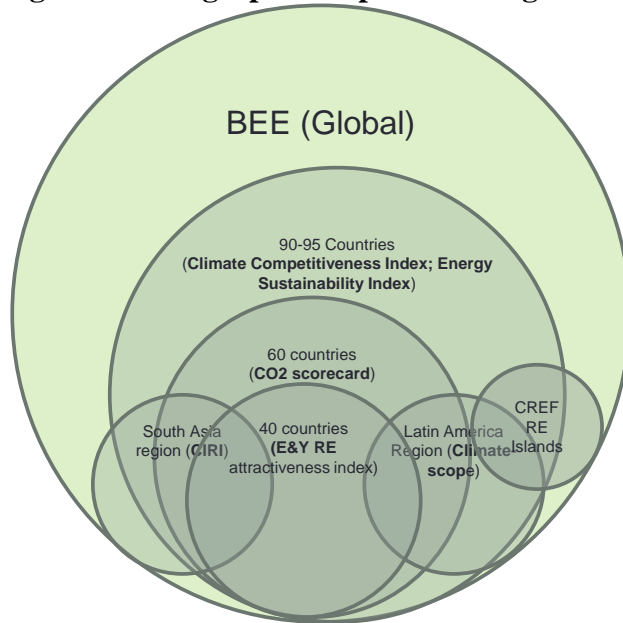
10. The BEE index would comprehensively include indicators which:

- a) **are policy focused** (i.e. enabling environment);
- b) **are global**: including developing, transition economies and developed countries;  
and

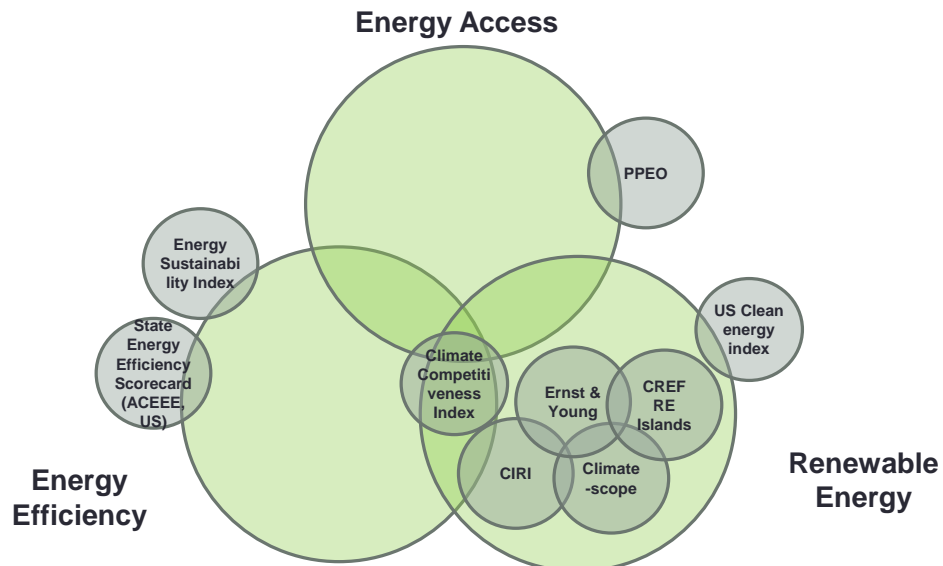
c) cover **renewable energy, energy efficiency, and energy access investments.**

11. While a wide range of indices exist, each contains a relatively narrow scope. Many claim to be global, yet focus on sub-groups of countries which are often OECD countries rather than SREP or CTF countries. Few have an explicit focus on tracking policy as it relates to improving the business environment for energy. In addition, each captures only elements of access, efficiency and renewable energy. The majority of indices focus on renewable energy. Only the Climate Competitiveness index intersects all three pillars (renewable energy, energy efficiency, energy access), yet was only conducted in 2010, and in a small number of countries. See below diagrams (Figures 1 and 2). Few have explicit focus on policies and regulations.

**Figure 1 – Geographic scope of existing indices**



**Figure 2 – Sector scope of existing indices**



12. In the first year, the BEE index would likely focus on a set of 10-20 countries, including SREP countries, and for benchmarking purposes a number of developed countries. Results would be presented to the SREP Sub-Committee and would be disseminated accordingly to relevant stakeholders. These results would also be used to refine the methodology and data collection survey on an annual basis. The objective would be to grow the BEE index to reach global scale based on the implementation of a phased approach.

13. Input indicators to be included in the BEE index would be collected for renewable energy, energy efficiency, and energy access investments. Other cross-cutting indicators would be considered. For energy access, the focus would be on electricity at this point with the component on modern cooking solutions to be developed at a later stage.

14. The BEE index would be created using the platform developed by the Global Indicators and Analysis Department (GIA), which the WBG has developed for assessing business environment in multiple sectors. As such, the existing platform would offer a strong brand and wealth of experience that can be leveraged for the BEE index, lending credibility and eventually momentum for widespread dissemination. (see the link for to the indicators produced by GIA: <http://wbl.worldbank.org/aboutus/global-indicators>)

15. Developing a credible index is challenging and requires a carefully considered methodology. The indicator scope, identification, and survey design would be developed following a four step process:

- a) Step 1 - Mapping exercise of existing indices to confirm that BEE index would add value, and avoid unnecessary duplication of effort.
- b) Step 2 - Define the scope and principles for the indicators. Experts consulted on this matter recommended indicators should meet the following criteria:
  - i. **objective:** reflect facts and not subjective perceptions and be based on understanding and interpretation of laws, regulations, and prevailing practices;
  - ii. **comparable:** method of measurement should be easily replicable in each country and allow cross-country comparison;
  - iii. **actionable:** focus on what is in control of the policy makers. Exogenous factors like market size may form part of explanations; and
  - iv. **context neutral:** indicators should not favor specific technologies, business models and institutional arrangements but focus on characteristics.
- c) Step 3 - Identify initial set of indicators through a number of activities, including:
  - i. identify through desk research available policies to enable investments;

- ii. Identify an initial set of indicators and methodology for developing the index, based on the criteria described above; and
  - iii. initial validation of indicators, based on focus groups with private companies and industry experts, possibly a survey with a wide range of private energy companies and investors (will likely include large global companies, as well as smaller country specific investment firms), and survey with small group of countries.
- d) Step 4 - Validation of indicators and methodology through consultations with experts and development partners, and testing indicators in 10-20 countries. An initial desk-based exercise on five to six countries would test the ability to collect data for the proposed set of indicators using existing and publicly available data. A second field-based exercise on 10-20 countries would be used to validate the indicators and methodology: six SREP countries with investment plans already endorsed by the Sub-Committee, six-ten CTF countries taking into consideration geographical coverage, and up to five developed countries outside the SREP/CTF programs.

## **VI. OUTLINE**

16. The BEE index report would be produced on an annual or biennial basis. It would provide data for each participating country covering each indicator and sub-indicator for the areas of renewable energy, energy efficiency, energy access, as well as cross-cutting indicators. Detailed explanations of how each indicator and sub-indicator is measured would be provided. The data will allow analysis across countries as well as country specific analysis and trends over years as data become available.

17. As indicated earlier, the BEE index would also cross-reference outcome indicators from the SE4ALL Global Tracking Framework which would allow presenting correlation between the index and expected outcomes. Figure 3 below provides an illustration of how BEE input indicators and SE4ALL Global Tracking Framework outcome indicators could be captured in a two by two matrix.

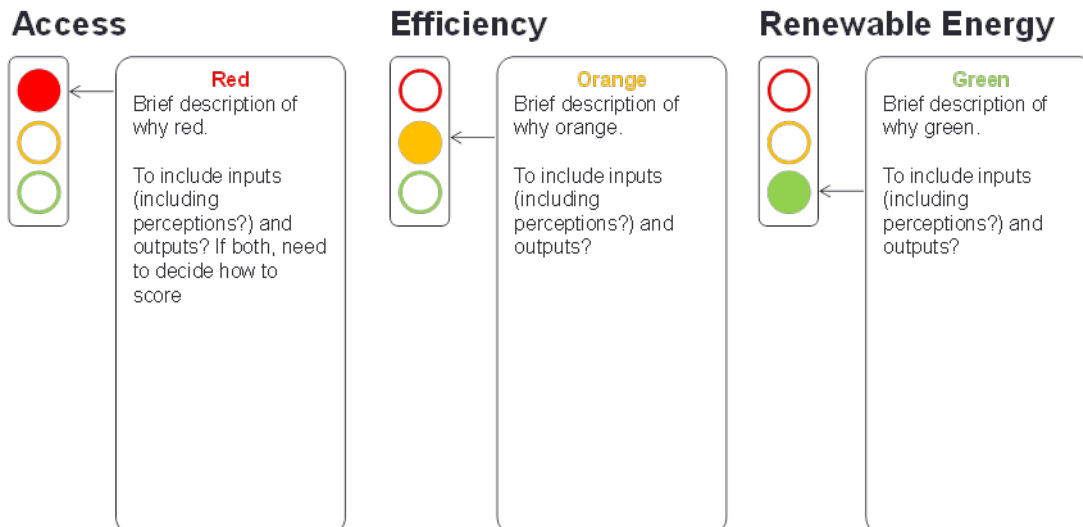


**Figure 3**



18. An example on how results from individual countries could be presented using a traffic lights approach rather than individual country scores is provided in Figure 4 below.

**Figure 4**



19. At least one SREP country will be selected each year for a “deep-dive”. This will provide a thorough analysis on institutional and policy framework, and perhaps provide a sub-national analysis (e.g., by region within the country to capture regional variations in regulations, policies, etc.)

## VII. BUDGET

20. The proposed budget for the first year of activities is \$540,000. The WBG and USAID have agreed to cover approximately \$190,000 or 35 percent of forecast costs. The request for SREP and CTF funds is \$350,000 or 65 percent of forecast costs. It is proposed that this amount be split evenly between the two programs.

Task	Staff / Consultant	Staff / Consultant weeks (nr. weeks)	Unit cost (US\$/week)	Staff cost (US\$)	Trips (nr. trips)	Travel cost (US\$)	Total cost (US\$)	Sources of Funding (US\$)		
								WBG	USAID	Funding Gap
Development of concept, methodology and initial indicators	Staff	8	5,000	40,000	-	-	<b>40,000</b>	15,000	25,000	-
	Consultants	10	5,000	50,000	-	-	<b>50,000</b>		50,000	-
Validation	Staff	4	5,000	20,000	-	-	<b>20,000</b>	20,000		-
	Consultants	2	5,000	10,000	-	-	<b>10,000</b>	10,000		-
Design of Survey	Staff	8	5,000	40,000		-	<b>40,000</b>	20,000		20,000
	Consultants	-				-	-			-
Conducting survey in 10-15 countries	Staff	14	5,000	70,000	6	60,000	<b>130,000</b>			130,000
	Consultants	26	5,000	130,000			<b>130,000</b>			130,000
Deep dive in one country	Staff	-					-			-
	Consultants	4	5,000	20,000	1	10,000	<b>30,000</b>			30,000
Analyzing results	Staff	8	5,000	40,000			<b>40,000</b>			40,000
	Consultants	-					-			-
Adjusting methodology	Staff	10	5,000	50,000			<b>50,000</b>	50,000		-
	Consultants	-								-
<b>TOTAL (US\$)</b>				<b>470,000</b>	<b>7</b>	<b>70,000</b>	<b>540,000</b>	<b>115,000</b>	<b>75,000</b>	<b>350,000</b>

## VIII. TIMETABLE

20. The timetable for the preparation and implementation of the BEE index is presented below:

<b>Deliverable</b>	<b>Date</b>
Mapping exercise, define scope and principles for indicators	February-April 2013
Approval of CIF funding	April 2013
Identification of initial set of indicators	April/May 2013
Validation, prospectus review with external partners	May/June 2013
Identification of respondents, design of survey	June-August 2014
Implementation in 10-20 countries	September-October 2013
Publication of the results	November-December 2013