

CLIMATE INVESTMENT FUNDS

FIP/SC.12/6
June 2, 2014

Meeting of the FIP Sub-Committee
Montego Bay, Jamaica
June 28, 2014

Agenda Item 5

PROPOSAL FOR ENHANCING FIP PIPELINE MANAGEMENT

PROPOSED DECISION

The FIP Sub-Committee reviewed document, FIP/SC.12/6, *Proposal for Enhancing FIP Pipeline Management*, and welcomes the report. The FIP Sub-Committee agrees to implement readiness-based pipeline management.

I. INTRODUCTION

1. At its meeting in October 2013, the FIP Sub-Committee requested the CIF Administrative Unit, in collaboration with the MDB Committee, to further reflect on the need for measures to improve the management of the FIP pipeline, including options for over-programming, as the pipeline advances.

2. This paper has been prepared in response to the above Sub-Committee's decision.

II. STATUS OF THE FIP PIPELINE

3. The current FIP portfolio consists of 38 projects and programs:

- a) 24 projects and programs under the endorsed investment plans of eight pilot countries;
- b) 9 projects supporting the implementation of the DGM; and
- c) 5 projects and programs supported under the FIP private sector set-aside.

4. As of March 31, 2014, the FIP Sub-Committee has approved FIP funding for 11 project proposals for a total of USD 193.18 million in FIP funding.

5. The last two *Semi-Annual Reports on FIP Operations* (FIP/SC.10/3 and FIP/SC.11/3) compared the actual to the projected funding approvals in FY 13. Between the initial projections in May 2012 and revised targets in March 2013, it was noted that there was considerable slippage of projects (68%) which were scheduled for FIP funding approval in FY13 and are now scheduled for FIP funding approval in FY 14. The delivery rate for FY 13 compared to the projected FIP funding approvals at the beginning of FY 13 was 22.3%. The delivery rate was 63.8% compared to the revised target from March 2013. Hence, regular pipeline updates by the MDBs have made the pipeline information more realistic.

6. From information provided by the MDBs, delays in submitting projects and programs for FIP funding approval are rooted in overly optimistic planning when compared to the complexity of the sector (s), the requirements in terms of consultations with key stakeholders on the proposed activities (sometimes in remote locations) or challenges in getting to an agreement on the institutional arrangements at government level in terms of overseeing the implementation of the projects. Despite the delays, all projects and programs in the pipeline in preparation for FIP funding approval are being actively pursued.

7. Considering the above dynamics in the pipeline of projects and programs in preparation for FIP funding approval, the Sub-Committee requested the CIF Administrative Unit, in collaboration with the MDB Committee, to further reflect on the need for measures to improve the management of the FIP pipeline, including options for over-programming, as the pipeline advances.

III. AGREED MEASURES FOR ENHANCING THE MANAGEMENT OF THE PIPELINES FOR CTF AND SREP

8. In light of the request by the FIP Sub-Committee in October 2013, the CIF Administrative Unit and the MDBs considered the agreed measures to enhance the pipeline management for the Clean Technology Fund (CTF)¹ and for the Scaling-Up Renewable Energy Program in Low-Income Countries (SREP)².

9. For the CTF, the CTF Trust Fund Committee introduced three measures for enhancing pipeline management: a) applying readiness-based pipeline management; b) shortening the timeframes and improving milestones for project delivery; and c) allowing over-programming.

10. For SREP, the SREP Sub-Committee concluded that the following measures would be applicable or suitable: a) applying readiness-based pipeline management; and c) allowing over-programming.

IV. DISCUSSION OF OPTIONS FOR ENHANCING FIP PIPELINE MANAGEMENT

11. For FIP, the following measures for enhancing pipeline management are discussed below:

- a) applying readiness-based pipeline management; and
- b) allowing over-programming.

Readiness-based pipeline management

12. The MDB Committee and the CIF Administrative Unit will to continue update and review the FIP pipeline on a regular basis and specifically identify projects and programs that have met all of the following readiness criteria:

- a) For public sector projects:
 - i. project concept (or equivalent) approved by MDB management; and
 - ii. inclusion in MDB-Government partnership strategy document or other national planning document, when applicable.
- b) For private sector projects and programs:
 - i. initial project or program concept (or equivalent) approved by MDB management;
 - ii. operation leader assigned; and

¹ Document CTF/TFC.11/10, *Proposal for Further Enhancement of CTF Pipeline Management*, (April, 2013)

² Document SREP/SC.10/6, *Proposal for Enhancing SREP Pipeline Management*, (October 2013)

- iii. inclusion in the MDB's project tracking system.

Over-programming

13. Over-programming would allow more projects in the FIP pipeline than the amount of pledged FIP resources. Over-programming is a standard practice within the MDBs to ensure full delivery of a financial envelope in a fiscal year. Experience of the MDBs in the CTF shows that some projects in the pipeline are bound to slip for various reasons or do not materialize at all. Over-programming allows for other projects to be brought forward for funding approval to fill any gaps.

14. It is important, however, to acknowledge that there are fundamental differences in the dynamics of the CTF and SCF pipelines. While the CTF focuses on middle-income countries only, pilot countries participating in the three SCF programs (FIP, PPCR and SREP) are mainly low-income and highly vulnerable. What might be considered an incentive to accelerating the pipeline in the CTF, can become a risk to managing the pipelines to the SCF programs.

15. Middle-income countries, the focus of the CTF, have easier access to capital from the markets and donor funding to fill in for funding gaps that might emerge for projects under preparation. These countries also have advanced institutional capacities and other enabling conditions in place, which provide the basis for multiple investment options. MDB pipelines are usually robust and alternative investments can replace planned investments which do not materialize.

16. Low income and vulnerable countries face a multitude of challenges in terms of an enabling environment in support of public and private sector investments. Often, these countries have limited access to large-scale resources and the institutional capacities are stretched. In addition, the project pipeline in these countries is far more vulnerable to the impacts of major events such as natural disasters or political instability as compared to middle-income countries. Hence, delays can occur and the potential impacts of over-programming (i.e. resources competition) might discourage these countries to find a workable solution to these challenges.

17. FIP is promoting a cross-sectoral and participatory approach to address the drivers of deforestation and forest degradation, promote sustainable forest management and enhance forest carbon stocks. By design, investments addressing REDD+ are often complex and need appropriate preparation time for consulting and agreeing on the appropriate investment approaches. Hence, certain pipeline management measures which might be appropriate for the CTF and SREP are not transferable to the FIP.

18. Most FIP pilot countries work with a complex set of stakeholders, including governments, indigenous peoples groups and local communities. In some cases, these relationships are fragile and in need for an environment which is conducive for trust-building and ensuring transparency. This includes the predictability of FIP funding for future project activities. Over-programming might become a reputational risk to the FIP if the objective to manage the pipeline would conflict with the need for future consultations and other trust-building activities between stakeholder groups.

19. Contrary to the experience in the CTF, the FIP pipeline is robust despite delays and none of the projects and programs is in jeopardy of not being fully prepared and implemented. The preparation of FIP projects and programs require extensive environmental, and social due diligence and intensive stakeholder consultations. Hence, these projects and programs tend to have a longer project preparation period compared to projects in other sectors.

20. In addition, the MDB pipeline of potential new FIP projects and programs is rather limited because of the risks and complexities associated with investments in REDD+. Hence the flexibility typically gained from over-programming would not necessarily result in the expected incentive to deliver new FIP projects quickly.

21. Taking into account the current status of the FIP portfolio and risks associated with over-programming, it is proposed that over-programming would not be an appropriate tool for enhancing pipeline management in the FIP.

Status of Unallocated FIP Resources

22. As of March 31, 2014, there USD 45.7 million of unallocated pledged FIP resources (USD 40 in grants and USD 5.7 million in near-zero interest credits).

23. For FIP, no new countries have been invited to participate in the FIP. In addition, the Sub-Committee also did not invite a second round for generating proposals under the FIP private sector set-aside.

24. The FIP Sub-Committee may wish to discuss the use of currently unallocated pledged FIP resources in the context of the discussion on document FIP/SC.12/8, *Options for the use of potential new funds under the FIP*.