CLIMATE INVESTMENT FUNDS

FIP/SC.9/8
October 10, 2012

Meeting of the FIP Sub-Committee
Istanbul, Turkey
November 5, 2012

Agenda Item 8

PROPOSAL FOR ALLOCATION OF FIP RESOURCES

PROPOSED DECISION

The FIP Sub-Committee reviewed document FIP/SC.9/8, *Proposal for Allocation of FIP Resources*, and approves the procedures for allocating reserve resources presented as option [1][2], including the proposed procedures for selecting and approving projects. The Sub - Committee agrees that the task of reviewing and scoring project concepts should be assigned to […], and approves the criteria for ranking received proposals. The Sub-Committee agrees that USD [30-40] should be allocated for a first round of funding from the reserve, with the understanding that a majority of the resources would be available as concessional lending. The Sub-Committee invites the CIF Administrative Unit, in collaboration with the MDB Committee, to initiate steps to launch the first round for selecting proposals from the reserve.

I. Background

1. At their May 2012 meetings, the FIP Sub-Committee reviewed document FIP/SC.8/5, *Procedures for Allocating Funds under the FIP Reserve*, and requested the CIF Administrative Unit to elaborate proposals on allocation of reserve funds within the FIP for consideration in November 2012, taking into account comments made by the Sub-Committee members during the meeting. Similar requests were made in the PPCR and SREP regarding unallocated funds under those programs.

2. There is a common thread in the three Sub-Committee discussions that the reserves in the three programs should be utilized, at least in part, to foster greater private sector engagement and development.

3. This document proposes procedures for allocation of reserve funds under the FIP.

II. Status of FIP Resources

4. Taking into account the decisions of the FIP Sub-Committee, and in particular decisions related to the allocation of resources and the endorsement of FIP investment plans, a summary of allocated funding is presented in table 1. There are currently USD 118 million in FIP pledges that are unallocated.

Table 1: Overview of FIP Allocations (as of June 2012)

	Grants (USD Million)	**Capital Contributions (USD Millions)**	**Total**
Pledges (as of June 30, 2012)[1]	**441**	**169**	**610**
Funding allocations for Investment Plans (as of July 31, 2012)			
- Endorsed Investment Plans	190	60	250
- Expected Investment Plans	114	56	170
Total IP allocations	**304**	**116**	**420**
Other allocations			
Investment Plan preparation grants	2	-	2
Dedicated Grant Mechanism (proposed indicative funding)	50	-	50

[1] Pledges valued on the basis of exchange rates as of June 30, 2012.

MDB project preparation/supervision	20	-	20
Total other allocations	**72**	**0**	**72**
Total Allocations	**376**	**116**	**492**
Unallocated funds	**65**	**53**	**118**

III. Scope of the FIP Reserve

5. During earlier discussions on the potential use of reserves, the Sub-Committee expressed an interest in using the reserve funds as an incentive to encourage direct or indirect engagement with the private sector in FIP pilot countries and to reward those pilot countries which moved quickly in implementing approved projects and showing results.

Engaging the private sector

6. Under the FIP, indicated allocations have been made on the basis of a country-owned investment plan in which programmatic goals are defined and project concepts proposed to meet those goals. These concepts may promote private sector activities, through both direct financing via the private sector arms of the MDBs and through public sector activities that strengthen enabling and regulatory environments for private sector participation.

7. Experience in developing investment plans has shown that concepts proposed to directly engage the private sector through the private sector arms of the MDBs were often not prioritized. In the report on *Lessons Learned from Private Sector Interventions through MDB Intermediaries* (document CTF-SCF/TFC.7/Inf.4), it was proposed that explicit allocations should be made to promote private sector interventions. The report notes that:

> "In contrast to the CTF, the SCF trust fund committees have been far less vocal about their expectations for private sector investment, and the results have been quite different. Even when there has been a clear need and ability for the private sector to support transformational objectives in SCF pilot countries, recipient governments have been less willing to allocate resources to such initiatives, especially grant funding. In some pilot countries, it has even occurred that governments were initially supportive of private sector programs within their investment plans but changed their minds when they learned that they could take their CIF allocation in the form of grants only. In these instances, private sector programs were withdrawn from consideration in investment plans because governments preferred to use grants to support public programs. In at least two FIP pilot countries, governments have been open about not accepting even highly concessional loans for public projects because they did not want to add to their debt burdens. In these cases, grant funds were allocated to public sector government-led programs, and loan funds were allocated to private sector

programs.[2] These experiences show that without expectations regarding the promotion of private sector engagement being built into the Fund's structure, there are inherent biases against attention being paid to opportunities for engaging the private sector in addressing low-carbon and climate-resilient development."

8. In considering the use of the reserve funds, the FIP Sub-Committees agreed that the reserve could usefully be used to address this issue and encourage the engagement of the private sector in the FIP.

9. Activities to promote private sector engagement may take multiple forms. In some cases, engagement can focus on specific private sector entities through private sector projects where at least 50% of the total project cost is covered by private entities. In others, public sector activities that strengthen regulatory and incentive environments can catalyze private sector investments across entire sectors.

10. Under current arrangements within the FIP, both forms of engagement are possible, using either the public or private sector arms of the MDBs as appropriate. However, as experiences to date highlight, there is a need to ensure a balanced approach that recognizes that both forms of engagement have value but also ensures that provisions are in place to ensure that resources are actually used for both purposes. Setting some resources aside would promote innovative approaches through both forms of private sector engagement and avoid one crowding out the other.

Demonstrating action and expanding innovation

11. The Sub-Committees also showed an interest in using the reserves under the FIP to further support activities in those pilot countries that are achieving clear results on the ground, and to give preference to innovative projects that expand the boundaries and depth of the FIP by financing project approaches, financial leverage or partnerships that were not already encompassed in the endorsed investment plans.

12. The Sub-Committee emphasized that any competitive process should be fair, transparent, and inclusive and should utilize, where appropriate, country-specific mechanisms.

IV. PROPOSED ARRANGEMENTS FOR ALLOCATING RESERVE RESOURCES

13. There are two options that could be used to respond to this guidance. Both options assume reserve funding currently available will only be allocated to projects in existing pilot countries.

Option 1:

14. Reserve resources are divided into two clusters:

[2] This reflects a clear misperception on the part of recipient governments, since CIF funds directed toward private sector initiatives and channeled through MDBs do not contribute to sovereign debt burdens (i.e., there is no guarantee by or borrowing obligation incurred by the government).

Cluster I: recipients of funding would be private sector clients working through MDB private sector arms;

Cluster II: recipient of funding would be a public sector actor for activities that remove a barrier to private sector development activities working through MDB public sector arms.

15. The relative distribution of resources between the two clusters could be determined by the FIP Sub-Committee as appropriate to the context of FIP, although a floor of 30% for each cluster is recommended. The procedures for allocating resources from each cluster would be different, reflecting the different role governments play in each type of activity.

Option 2:

16. All reserve resources would be used for direct private sector financing projects, working through MDB private sector arms and using the procedures identified for Cluster I below.

V. Proposed Procedures

17. The following procedures are proposed for selecting and approving the projects to be financed through the reserve funds based on Options 1 and 2:

Call for Proposals

18. It is proposed that the FIP Sub-Committee be invited to agree that the reserve funds be made available when (a) there are sufficient funds available to justify the allocation of funds, and (b) sufficient progress has been made in implementing the program to justify allocating additional funds.

19. A call for proposals would be prepared by the CIF Administrative Unit, working in collaboration with the MDB Committee. The call for proposals would include information on:

a) the FIP objectives, principles and investment criteria agreed in the policy documents;

b) a list of FIP pilot countries;

c) information on the size of available financing;

d) guidance of which types of organizations/entities are eligible to apply (drawing on eligibility guidelines of MDB private sector arms for cluster I in particular);

e) a scorecard with criteria that will be used to evaluate, score and prioritize proposals for final consideration by the Sub-Committee;

f) guidance on the format to be used to submit program/project concepts (recognizing MDBs will not undertake full project preparation processes); and

g) timeline for submitting, reviewing and approving proposals.

20. Under Option 1, the call for proposals would include this list of information for both Cluster I and II activities.

21. The call for proposals would be sent to the FIP Sub-Committee for approval. Once approved, the call for proposals would be widely distributed through the following channels:

a) posted on the CIF and MDB websites;

b) distributed to pilot country focal points for circulation within national constituencies and networks;

c) distributed to the FIP Sub-Committee members and observers for circulation among their networks;

d) distributed to MDB focal points for circulation among MDB task teams; and

e) distributed through relevant IISD Reporting Services mailing lists such as Climate-L - Climate Change Info Mailing List or Forests-L - Forests Info Mailing List.

Preparation of Proposals

22. Program/project concepts that meet the criteria described in the call for proposals would be submitted to: (a) a pilot country focal point, (b) one of the CIF MDB partners, and (c) the CIF Administrative Unit. The CIF Administrative Unit will collate all the program/project concepts received within the agreed time, and share those concepts with the appropriate pilot country focal point and the MDBs for information.

23. For each program/project concept, there should be a clear identification of the MDB that would be responsible for supervising the proposed program/project, and the requested amount of CIF funding.

Review of Proposals

- *Under Option 1*

For Cluster I projects:

24. Experience from existing competitive development finance mechanisms[3] suggests that a "Fund Manager" should be tasked with reviewing and scoring concepts against the

[3] The Africa Enterprise Challenge Fund provides a useful model: http://www.aecfafrica.org/index.php?option=com_content&view=article&id=14&Itemid=30

scorecard/criteria published in the call for proposals. The scorecard will serve as the guide for transparently and consistently scoring each concept.

25. Within the CIF, the task of reviewing and scoring concepts could be delegated to:

a) A committee drawn from the FCPF roster of experts used for investment plan review;

b) The MDB Committee; and

c) The Administrative Unit.

26. The concepts would be listed and ranked based on their scores, and taking into account the resources available for Cluster I activities, a preliminary shortlist of concepts will be prepared. The CIF Administrative Unit would send any concept on the preliminary short list to the relevant government focal point for a no-objection approval to retain the concept on the short list. If approval is not granted, the next-highest concept on the ranked list would be added to the short list. In asking for a concept to be deleted from the short list, the government should provide a short explanation as to why approval was not granted.

27. The CIF Administrative Unit would submit the finalized shortlist of concepts to the FIP Sub-Committee for approval based on available resources. Recognizing the limited availability of resources, the FIP Sub-Committee may wish to put a cap on the total resources that may be allocated to activities in each country.

<u>For Cluster II projects:</u>

28. These projects would follow the same approach with the exception of the no-objection approval, as proposals would have been submitted by governments (including via MDBs) at the outset.

- *Under Option 2*

29. All procedures would follow those for Cluster I.

30. Once a program/project concept has been selected for funding, its further development, approval and implementation will follow the CIF and MDB procedures followed for other activities financed under endorsed investment plans.

VI. SCORECARD FOR PRIORITIZING ACTIVITIES

31. The following general and FIP-specific criteria will be used to score and rank received proposals:

General Criteria (to be rated on a scale of 1 (lowest) to 5 (highest)

- Alignment with the objectives of the country investment plan

- Consistency with the SCF program objectives, principles and investment criteria

- Progress in implementing projects under the endorsed investment plans (Sub-Committee should have approved at least 20 percent of the indicative funding allocated to the endorsed investment plan to receive a score of 1. A higher score would indicate a higher level of funding approval)

- Timely delivery of projects under endorsed investment plans as per pipeline (proposed project in country with one or more projects in "red" zone to receive a score of 1. A higher score would indicate the timely meeting of agreed benchmarks)

- Projected leverage of investments and/or anticipated direct or indirect engagement of private sector actors

- Level of innovation, taking into account, for example, innovative approaches, stimulation of markets through certification, taking a good practice to scale, creating new partnership, piloting a new approach to "business-as-usual", or use of an innovative financing instrument

- Implementation feasibility within 6-9 months of funding approval

- Development impacts

FIP-specific Criteria

- Driver(s) of deforestation and forest degradation addressed by the project (to receive a score of 1 if the driver is addressed already by other projects in the investment plan. A higher score would indicate a driver currently not addressed in the investment plan or new/innovative activities addressing a driver already addressed).

- tons of CO_2eq emissions reduced or avoided (directly or indirectly and compared to other received proposals).

- Level of innovative stakeholder collaboration (to receive a score of 5 if an innovative collaboration is proposed such as deeper collaboration with the private sector or engagement with a stakeholder group that is currently not addressed through projects in the endorsed investment plan. A lower score would indicate that the project targets stakeholder groups which are already benefitting from projects in the endorsed investment plan).

32. Based on the criteria outlined above, the following matrix provides a proposed scorecard for prioritizing FIP project proposals.

	Criteria	Score				
		1	**2**	**3**	**4**	**5**
1	**Alignment with objectives in FIP investment plan**	Very weak	Weak	Adequate	Strong	Very Strong
2	**Consistency with FIP objectives and investment criteria**	Very weak	Weak	Adequate	Strong	Very Strong
3	**Level of innovation**	Very weak	Weak	Adequate	Strong	Very Strong
4	**Leveraging ratio**	Below 1:1	1:1 to 1:3	1:3 to 1:5	1:5 to 1:8	Above 1:8
5	**Rate of funding approval (% of endorsed IP funding)**	Below 20%	20%-39%	40-59%	60-79%	80% or above
6	**Timely delivery of projects**[4]	>1 project listed as "red"	1 project listed as "red"	>1 project listed as "yellow"	1 project listed as "yellow"	all project listed as "green"
7	**Implementation feasibility**	> 15 months	12-15 months	9-12 months	6-9 months	<6 months
8	**Addressed drivers of deforestation and forest degradation**	Driver addressed already in existing projects	Driver already addressed but few new activities	Driver already addressed with mix of new/already addressed activities	Driver already addressed but majority of proposed activities are new	Driver not addressed in any existing projects
9	**Tons of CO2eq emissions reduced or avoided (directly or indirectly**	Relative to other proposals				
10	**Level of innovative stakeholder collaboration**	Very weak	Weak	Adequate	Strong	Very Strong

[4] Using "traffic light" information from the most recent quarterly update on the FIP pipeline.