

CLIMATE INVESTMENT FUNDS

FIP/SC.9/CRP.2
November 5, 2012

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

**ADDITIONAL OPTION FOR PROCEDURES TO ALLOCATE RESERVE FUNDS TO ENCOURAGE
PRIVATE SECTOR ENGAGEMENT AND INNOVATION**

NOTE: Since issuing the documents for the FIP, PPCR and SREP on the allocation of potential reserve resources, the CIF Administrative Unit received requests to prepare an additional option for procedures to be followed in allocating reserve funds to encourage private sector engagement and innovation. More specifically, it was requested that an option be prepared that would build on the experience and capacity of the MDBs to assess the feasibility and quality of project concepts at an early stage in the selection process. The following option is presented to the Sub-Committee for its consideration together with the proposals presented in the initial document on the allocation of resources.

Enhancing the engagement of the private sector

1. 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 pilot countries and to reward those pilot countries which moved quickly in implementing approved projects and showing results.
2. Under the program, 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.
3. 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.
4. In considering the use of the reserve funds, the Sub-Committee suggested that the reserve could usefully be used to address this issue and encourage the engagement of the private sector in the program.
5. 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.
6. Under current arrangements, 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

7. The Sub-Committee also showed an interest in using the reserves under the program 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 program by financing project approaches, financial leverage or partnerships that were not already encompassed in the endorsed investment plans.

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

Proposed Arrangements for Allocating Reserve Resources

9. In light of the above, it is proposed that the reserve resources are divided into two clusters:

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

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.

10. The relative distribution of resources between the two clusters could be determined by the Sub-Committee.

Trigger to initiate use of reserve

11. It is proposed that the Sub-Committee agree that the procedures for allocating reserve funds should be triggered only when sufficient committed funds are available in the SCF Trust Fund for the program. Sufficient funds would require committed contributions to the program to exceed by an agreed amount the resources required to finance the pipeline of projects and programs under the endorsed investment plans.

Request to MDBs to initiate proposals

12. Once the procedures are triggered, the Sub-Committee would request the MDBs, in collaboration with the pilot countries, to initiate the development of concept proposals for programs and projects to engage the private sector in support of the program's objectives. The Sub-Committee should also provide information on:

- a) targeted guidance related to the private sector and/or expanding innovation;
- b) size of available financing and any cap that may be allocated to activities in one country;
- c) a scorecard with criteria that will be used to evaluate, score and prioritize concept proposals to be submitted to the Sub-Committee for endorsement;
- d) format to be used to submit program/project concepts (recognizing concepts will be in an early stage of program/project development); and
- e) a timeline for submitting, reviewing and approving proposed concepts.

Dissemination of request to MDBs

13. The guidance to the pilot countries and the MDBs, together with contact information for each MDB, will be made publicly available through the following channels:

- a) the CIF and MDB websites;
- b) pilot country focal points for circulation within national constituencies and networks; and
- c) other relevant channels agreed upon between the MDBs and the pilot country governments.

Receipt of Proposals

14. Initial program/project concepts should be submitted to the appropriate MDB contact points referred in the paragraph above. MDBs will share and discuss program/project concepts with the pilot country focal point to ascertain which concepts can further advance the objectives of its investment plan.

Review of Proposals and Decision

15. MDBs will review, for implementation feasibility, those concepts which are identified as advancing the investment plan, using their own internal review procedures.

16. The MDBs will share with the pilot country focal point the program/project concepts which they consider feasible for further consideration. If any concept is not recommended for further consideration, the MDB should provide the focal point with a brief explanation of its decision.

17. Concepts which advance in the selection process after screening by the MDBs and focal points will be reviewed in accordance with the agreed scorecard (see paragraph 12(c) above).

18. Responsibility for scoring concepts may be delegated by the Sub-Committee to:

- a) a committee of 2 to 3 experts drawn from the roster of experts used for investment plan review;
- b) the CIF Administrative Unit; or
- c) a committee comprised of one or two roster expert(s), one to two MDB representatives (excluding any MDB which is associated with a proposal to be reviewed), and one to two representatives of the CIF Administrative Unit.

19. The concepts would be listed and ranked in priority order based on their scores. Taking into account the resources available for agreed activities, a preliminary shortlist of concepts

recommended for funding will be prepared. The CIF Administrative Unit will send the short list of concepts to the relevant government focal point for its agreement, on a no-objection basis, to retain the concept on the short list. If the focal point objects to a concept, it will be removed from the list, and a new concept will be added by the reviewers and submitted to the appropriate focal point. Any government objecting to the inclusion of a concept should provide a short explanation of its objection.

20. The CIF Administrative Unit would submit the agreed shortlist of concepts to the Sub-Committee for endorsement.

21. Once a program/project concept has been endorsed by the Sub-Committee, its further development, approval and implementation will follow the CIF and MDB procedures followed for other activities financed under endorsed investment plans.