GCAP Sub-Committee Meeting

Washington, DC, USA

Thursday, November 9, 2023

RECOMMENDED APPROACH TO RIGHTSIZING FUNDING ALLOCATIONS UNDER CIF'S RENEWABLE ENERGY INTEGRATION (REI) PROGRAM

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PROPOSED DECISION

The GCAP Sub-Committee, having reviewed the document entitled *Recommended Approach to Rightsizing Funding Allocations Under CIF's Renewable Energy Integration (REI) Program*, and recognizing the ongoing discussion at the CTF Trust Fund Committee about supporting REI Investment Plans for CTF Countries, approves the guidance prepared by the independent expert for the REI Program, as follows:

a) If REI funds are to be distributed among the remaining eight countries selected without approved REI IPs, the allocation of REI funds will be:

Country	**Amount (USD million)**
Ukraine	**19.31**
Fiji	**19.31**
Kenya	**19.31**
Mali	**19.31**
Costa Rica	**19.31**
Indonesia	**19.31**
Turkey	**19.31**
India	**19.31**

b) If the CTF Trust Fund Committee decides to support the four existing CTF countries without approved REI IPs to receive funding from the CTF (India, Indonesia, Turkey, and Ukraine), the allocation of REI funds among the remaining countries will be:

Country	Amount (USD million)
Mali	32.60
Costa Rica	45.00
Fiji	30.51
Kenya	46.39

1 Introduction

1. This document documents the rightsizing for funding allocations under the Climate Investment Funds' (CIF) Renewable Energy Integration (REI) Program for consideration and endorsement by the CIF Global Climate Action Programs (GCAP) Sub-Committee.
2. Upon the REI program launch in October 2021, the GCAP Subcommittee invited ten applicant countries (based on the ranking of Expressions of Interest (EoIs) by an independent expert group (IEG)) to develop investment plans (IPs). The original deadline to submit IPs was May 2023. The top five ranked countries (Phase 1 countries: Ukraine, Fiji, Colombia, Kenya, and Mali) were asked to prepare IPs to be funded up to USD 70 million and the next five (Phase 2 countries: Costa Rica, Indonesia, Turkey, India, and Brazil) were asked to prepare IPs to be funded pending the contribution of additional resources. Total resources available at the time of the decision were approximately USD 300 million (exact amount varying due to exchange rates), which was insufficient to cover all ten IPs at the full value. Therefore the GCAP Subcommittee encouraged MDB partners to rightsize their IPs so that the funds could be allocated across the top five countries.
3. At the February 2023 GCAP Sub-Committee meeting, Colombia's IP was approved. Before the June meeting, the GCAP Committee requested that the CIF Secretariat coordinate a rightsizing exercise to produce options for distributing resources in a way that could maximize their impact at existing levels. A first draft of the rightsizing approach was presented at the June 2023 GCAP meeting. Committee members and MDBs as well as civil society organizations (CSOs) commented on the presented approach.
4. At the June 2023 GCAP-Sub-Committee meeting, Brazil's IP was approved and Mali's IP was presented and discussed. It was resubmitted to be approved by mail, but not approved pending the rightsizing exercise. The rightsizing approach was redrafted intersessionally on the basis of the comments received at the meeting and in subsequent meetings with the MDBs, where they were given an opportunity to propose additional parameters for refining the rightsizing approach—both at the meeting and by email. This document discusses the inputs from various stakeholders, including Committee members, CSOs, and MDBs and updates the rightsizing approach on that basis and on the basis of the decisions taken at the GCAP meetings.

2 Funding availability

5. Of the current pledges of USD 302 million, USD 5 million are reserved for IP preparation grants and USD 2.5 million for country engagement. Therefore, the remaining USD 294.5 million are available for IPs. Of this, USD 70 million has already been allocated to both Colombia and Brazil, leaving a balance of USD 154.5 million (Table 1). This is not enough to allocate USD 70 million to each of the remaining countries.

Table 1: Available funding

	Amount (USD million)
Total Pledges	302.00
IP preparation grants	5.00
Country engagement	2.50
Net Available for IPs	**294.50**
Colombia	70.00
Brazil	70.00
Net Available for Remaining IPs	**154.50**

3 Discussion of parameters considered for rightsizing

6. This document builds on an earlier draft. Both drafts discuss several principles that have been identified and discussed in the participatory process described above.

7. The first principle proposed in that process was that the initial rankings of the Expressions of Interest (EoIs) are to be respected. In the consultations, MDBs emphasized that the analysis conducted by the IEG during the EoI evaluation shall remain valid, highlighting the high quality of that assessment with respect to its conceptualization, comprehensiveness, and basis in approved selection criteria, including impact, social inclusion, stakeholder engagement, and gender equality. One suggestion for the rightsizing approach proposed by the MDBs was to repeat this analysis on the IPs. However, such an assessment would only be possible once all IPs are finalized. As some Committee Members are requesting the rightsizing proposal to be available before decisions are taken on further IPs, this would delay the rightsizing and the decision making until all IPs are developed. According to the current status information provided by the MDBs, that will not be before Q1 of 2024.

8. The second principle proposed was that funding allocations should correspond with each country's absorptive capacity and ability to raise cofinancing (i.e, smaller and less financially developed countries should receive smaller shares). The earlier draft for the rightsizing approach suggested to include socio-economic and size parameters for reflecting the absorptive capacities and the needs of countries and determine the rightsized IP allocations on that basis. The MDBs reasoned against the use of these two groups of parameters, on the following basis:

   - Socio-economic parameters have no direct relationship to the effort needed for RE integration. In addition, the MDBs considered socio-economic parameters a "double-edged sword", in that they could be a justification for providing more funds but also less funds to poorer countries.
   - Size parameters are related to the efforts needed for the RE integration – larger countries have larger power grids, and therefore higher investment needs to operate stable power grids with high RE penetration. On the other hand, there is a maximum level of funding that can be meaningfully utilized for RE integration purposes. That maximum level is

potentially higher in larger countries and lower in smaller countries. However, in the expert's judgement, the needs and absorptive capacity of all EoI countries are considered high enough to absorb IPs of the order of magnitude of at least USD 50 million, particularly given the long time over which CIF programs are typically implemented. Due to the very limited funds available, it is expected that that level will not be attainable anymore.

- Size and socio-economic parameters are also just two of many factors that affect the need and ability to access concessional funding.

9. Thirdly, fund allocations shall be large enough to justify the significant effort and transaction costs associated with the development of a multi-agency IP. A reasonable size that can justify this effort is in the order of magnitude of USD 20 million.

10. Several further aspects were suggested, including readiness. By definition, an IP is ready when it is submitted to and approved by the GCAP. It can be enforced by a hard cut-off deadline. However, the GCAP Committee has been lenient and granted an extension until November 30, 2023 to submit IPs.

11. A consideration suggested by the GCAP and reiterated by the MDBs was to apply the logic of the pipeline management guidelines to the rightsizing exercise. The MDBs specify that this includes "Project/program readiness, with additional considerations on (i) an equitable balance among IPs, regions, and MDBs, (ii) public sector-private sector distribution; (iii) technological/sectoral diversity; and (iv) co-financing opportunities." This would result in a more complex rightsizing formula:

    - From the perspective of criterion (i) and specifically with respect to the regional balance, it might seem noteworthy that all approved IPs approved until now are in the LAC region. However, the overall portfolio was balanced regionally at the EoI stage, with three proposals in LAC, two proposals in ECA/MENA, two proposals in Africa and three proposals in Asia-Pacific. Excluding the third LAC country at this point would be penalizing countries for being on time, and thus set a very unfortunate precedent and incentive.

      Furthermore, prioritizing regional balance as the only criterion would be insufficient to solve the funding dilemma fully, as it would eliminate only Costa Rica from the current list of eight unfunded IPs. The funds "released" by not funding Costa Rica would not add a significant amount to the remaining funds, that would still be insufficient to satisfy IPs of USD 70 million for the remaining countries. For there to be a difference, additional criteria would need to be applied within the rightsizing exercise.

    - Criteria (ii) and (iv) require a ranking of fully developed IPs regarding their ability to leverage private sector funds and co-financing. This would be possible on the basis of the fully developed IPs, implying that no decision can be taken before Q1 of 2024.

    - Applying criterion (iii) would exclude those technologies that have been funded significantly in the current IPs from further inclusion in forthcoming IPs. The REI Call for Proposals (CfP) does not define which technologies should be covered in the resulting portfolio of projects and with which shares. Overall, the CfP encourages a vast range of technologies and approaches, including business models, regulatory support, and capacity building as well as investments into load management options, network optimization, and ramping support. As these activities are very diverse in nature and capital intensity, translating them into funding shares is even more difficult, and the CfP cannot be interpreted with respect to the shares of funding that should be given to each technology. It clearly excludes VRE investments as not fundable under the programme. It is less clear on hydrogen.[1] It does not explicitly promote large capital investments into electrolysers or power lines. While excluding such investments would allow for the downsizing of some IPs, some of these investments might be needed in the remaining IPs for a comprehensive and effective REI approach.

12. Some MDBs in their interventions actively concurred with the opinion of the expert that the Variable Renewable Electricity (VRE) penetration (i.e., wind and solar capacity as a share of total capacity of the respective country power system) is an appropriate reflection of the REI challenges and grid needs.

13. VRE penetration is the best proxy for renewable energy (RE) integration issues. Broadly speaking, from a technical perspective, the need to adjust grid operations for RE integration are proportional to the level of VRE penetration. Utilities in the United States, for example, will be able to deal well and without a major change in their operating paradigm with VRE integration levels of up to around 15 percent. At higher levels, grid stability challenges increase and urgent needs to change power systems control paradigms or control technology arise. At this point, the need for more sophisticated grid management, additional auxiliary services provision, digitization, or storage components will become very pronounced. At lower levels of VRE penetration, grid operators can rely more on traditional approaches. Nevertheless, it is recommended to start including flexibility options and digitization already at much lower levels to enhance efficiency and functioning of the electricity system.

14. In the ten countries, VRE takes on values between 0.4 percent and 17.7 percent. This implies that the grids in some IP countries are about to approach the relevant levels while others will have an integration problem only after some additional renewable energy deployment (which will not be funded by the REI program). Applying VRE as a rightsizing parameter, therefore, results in an adequate alignment of grid integration needs and useful levels for funding volumes.

4 Rightsizing Scenarios for four and eight countries

4.1 The rightsizing is conducted for two cases. In scenario 1, all eight countries are included. In scenario 2, four countries (Ukraine, Turkey, Indonesia, and India) are expected to benefit from support by the CTF for RE integration activities. If such option is approved by the CTF TFC, the remaining REI IP funds, would be shared only between four countries. Rightsizing scenario for eight countries

[1] The rationale for funding hydrogen investments has been questioned by the IEG.

15. At this point, eight countries have the opportunity to develop an IP. The remaining funds are insufficient to satisfy the floor of USD 20 million discussed above. An even allocation of USD 19.31 million is proposed if all countries should receive funds (Table 2).

Table 2: Allocation of funds to 8 countries

Country	Amount (USD million)
Ukraine	19.31
Fiji	19.31
Kenya	19.31
Mali	19.31
Costa Rica	19.31
Indonesia	19.31
Turkey	19.31
India	19.31

4.2 Rightsizing scenario for four countries

16. At the GCAP meeting in June 2023, it was discussed that the four existing CTF countries without approved REI IPs might receive funding from the CTF. If India, Indonesia, Turkey, and Ukraine do not need to receive funds from the REI program, rightsizing according to the technically relevant parameter VRE results in the allocations reflected in Table 3.

17. The parameter has been applied in such a way that 60 percent of the available funds are distributed evenly across the four countries, and the remaining 40 percent are distributed depending on the VRE shares of the countries.

Table 3: Allocation of funds to 4 countries, using VRE parameter

Country	Amount (USD million)
Mali	32.60
Costa Rica	45.00
Fiji	30.51
Kenya	46.39

The Climate Investment Funds

The Climate Investment Funds (CIF) were established in 2008 to mobilize resources and trigger investments for low carbon, climate resilient development in select middle and low income countries. To date, 14 contributor countries have pledged funds to CIF that have been channeled for mitigation and adaptation interventions at an unprecedented scale in 72 recipient countries. The CIF is the largest active climate finance mechanism in the world.

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