Climate Investment Funds

November 3, 2011

**PIPELINE MANAGEMENT OF THE TARGETED PROGRAMS
UNDER THE STRATEGIC CLIMATE FUND**

BACKGROUND

1.   During its meeting in June 2011, the SCF Trust Fund Committee reviewed document SCF/TFC.7/5, *Proposal for Pipeline Management for Targeted Programs under the SCF,* and expressed its general support for the proposed procedures to guide pipeline management. The meeting requested the CIF Administrative Unit, in consultation with the MDB Committee, to prepare a revised paper, taking into account comments made by the Committee, for consideration by the SCF Sub-Committees and the SCF Trust Fund Committee at their meetings in November 2011. In particular, the Committee requested that the paper be aligned, as appropriate, with the CTF pipeline management practices. This paper responds to the request by the SCF Trust Fund Committee.

2.   The introduction of this document provides a short overview of the operational status of each SCF targeted program. Section I outlines the pipeline management approach, including principles and processes. Section II describes pipeline management criteria. Section III outlines the steps for managing pipeline changes when revisions to an endorsed investment plan are proposed.

INTRODUCTION

3.   Under the three targeted programs under the Strategic Climate Fund (SCF) – Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR) and Scaling-up Renewable Energy Program in Low-Income Countries (SREP) - investment plans[1] are by governments with the assistance of MDBs working in the country and endorsed by the appropriate Sub-Committee as a basis for the further development of project and program proposals. Project and program proposals are submitted to the CIF Sub-Committee for approval of CIF funding at a pre-appraisal stage.

4.   The Sub-Committees for FIP, PPCR and SREP have agreed on principles for the allocation of resources to the selected pilots taking into account, among other things, the pledges per targeted program. The allocation of resources to pilots is expressed through a range with an upper and lower ceiling, recognizing that actual funding decisions are to be made on the basis of project and program proposals. The Sub-Committees have underscored that the quality of the proposed activities will be a significant factor in the funding to be approved when project and program proposals are submitted for approval of SCF funding.

5.   As investment plans and projects and programs are currently being prepared, it is timely to agree upon a strategy for actively managing the project and program pipeline in a manner that maximizes the efficient and effective use of available resources over time.

6.   Based on experience gained in managing the CTF pipeline, it is apparent that project development and expectations are constantly evolving for many reasons. In some cases, modifications to the original investment plans endorsed by the Sub-Committee may be proposed. In other cases, project and program development may be delayed. Some projects or programs originally identified in an investment plan may be dropped or cancelled due to changes, among

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[1] Investment Plans for FIP and SREP; Strategic Programs for Climate Resilience for SPCR

other things, in country priorities, financing structure of the project, or new information that becomes available. There is lack of certainty associated with the expected schedule of payments from contributor countries. The pipeline management strategy is proposed to assess governments, the MDBs, and the SCF governing bodies manage these evolving circumstances with a view to maximizing the utilization and impact of SCF funding resources.

I.   SCF PIPELINE MANAGEMENT APPROACH

7.   An important objective of pipeline management is to provide the Sub-Committees and country teams with greater predictability and confidence in the availability of funding. In addition, the pipeline management system will help ensure that projects and programs submitted to the Sub-Committees for approval of SCF funding do not exceed available resources in the Trust Fund. The tool will help track contributions, allocations and pipeline related information on the status of project and program development.

8.   **Contributions.** Contributor countries agree with the Trustee on a schedule for providing contributions to the SCF Trust Fund in the form of promissory notes or in-cash contributions. These schedules allow the Trustee to advise the CIF Administrative Unit and the MDB Committee on the predicted availability of funds for commitment to projects and programs.

9.   The Trustee has developed a Resource Availability Projection Tool to facilitate planning on when resources will be available for commitment under the SCF. This tool provides forecasts of available funds on a monthly basis and a summary of the cumulative contributions to the trust fund for the various forms of contributions (grants and capital).

10.   Projections of resource availability are based on the Trustee's discussions with contributor countries and experience and past practices in other multi-donor funds managed by the Trustee.

11.   **Programs and Projects**. The pipeline of resource demands for projects and programs is developed using information provided by the MDBs on their expectations for the development of activities outlined in endorsed investment plans. The MDBs forecast for each project or program includes indicative dates for submission to the Sub-Committee for approval of SCF funding and for Board approval by the MDBs. The pipeline will be reviewed on a quarterly basis to take into account possible changes in activities and targeted approval dates.

12.   The SCF pipeline management approach builds on cash flow projections of inflow of contributions as provided by the Trustee and outflow of pipeline programming requirements as provided by the MDBs for each of the targeted programs. These cash flow projections provide an analytical tool to assess the liquidity position of the SCF funds, to plan so that resources are available through the year, and to smooth out the step pattern resulting from contributions being concentrated in the period of May to June of each year. It also contributes to effective project and program processing by providing information to country teams that allows them to reasonably plan their work programs and schedule for approval of projects and programs.

13.   The CIF Administrative Unit will coordinate the inflow of information to allow for the monitoring and tracking of contributions, allocations and distribution of funding to countries, sectors, approaches and technologies plus all other pipeline-related assessments and reviews.

14.   **Pipeline Management Principles**: In proposing the pipeline management approach for the SCF targeted programs, the following principles and objectives have been taken into account:

   a)   *Data accuracy*: Several levels of checks and balances should be established to ensure that data are accurate and reflect, to the extent possible, reasonable and realistic projections of both resource availability and pipeline needs. Each MDB is responsible for submitting accurate data in a timely manner. The CIF Administrative Unit is responsible for compiling the data into a user friendly pipeline format, confirming that the data is consistent with the endorsed investment plans, identifying any "red flags", and facilitating resolution by the MDB Committee of any conflicting requests for resources. Emphasis should be given to providing precise data and information.

   b)   *Partnership*: MDBs collaborating on the same investment plan should consult each other and inform the country before submitting data for inclusion in the pipeline management system. Requests for Sub-Committee approval of SCF funding for projects and programs should be consistent with resources requests proposed in the endorsed investment plan, unless otherwise agreed by the MDBs and the respective government.

   c)   *Collective agreement*: As the SCF and its targeted programs are a collaborative partnership among the MDBs, pipeline management will be handled through consensus-building discussions with the objective of reaching a common position within the MDB Committee. When issues arise, the MDB Committee will review the available resource and programming needs within the pipeline requirements of each MDB and agree on a "schedule of approvals" following prioritization criteria as set forth in Section II below. If, on an exceptional basis, the MDB Committee is unable to reach an agreement on a "schedule of approvals," unresolved issues will be brought on case-by-case basis to the attention of the relevant Vice Presidents or equivalent level manager of the MDBs involved in the disagreement for advice and resolution.

15.   **Pipeline Management Process**. Although the pipeline will be kept under review on a quarterly basis, it is proposed that the initial planning be agreed on a fiscal year basis (a 12 month horizon) to allow country teams to better plan their work. The following process has been agreed by the MDB Committee to achieve this goal:

   a)   After endorsement of an investment plan, projects and programs will be included in the pipeline. The investment plans endorsed by a Sub-Committee provide an indicative envelope of SCF resources for funding projects and programs included in the investment plans. Managing the pipeline taking into account both the timeline for project development and the volume and timing of expected resource

availability should encourage timely project and program development so that SCF resources can be programmed more efficiently and effectively. If the demand for resources is higher than what is available for commitment, the MDBs and the CIF Administrative Unit will discuss the pipeline and agree on a list of projects and programs to be submitted for funding approval in priority order by applying criteria presented below.

b) Prior to the start of the fiscal year (July – June) [2], the MDB Committee, based on the projection of resources provided by the Trustee, will agree on an overall programming figure for each targeted program for the fiscal year. At mid-point in the fiscal year, a preliminary approval schedule for the first six months of the next fiscal year will be prepared.

c) As an input to this process, the CIF Administrative Unit, based on the programming information submitted by the MDBs, will prepare a comprehensive list of programs and projects expected to be submitted for funding approval during the fiscal year. (See Annex 1: Quarterly Reporting Requirements for the MDBs). The Trustee will prepare a projection of resource availability for the fiscal year.

d) The MDB Committee, based on the information provided, will develop a proposed approval calendar for the fiscal year for each targeted program, with an indication of programs or projects to be submitted to the respective Sub-Committees for funding approval during each quarter of the fiscal year, taking into account the criteria in Section II below.

e) The MDBs will seek to spread out submission of projects and programs to the respective Sub-Committee over the course of the year to avoid "front-loading" or "bunching" of project and program approvals. It is expected that there may be more approval activity during the last quarter of the fiscal year (April to June) due to slippage.

f) The approval calendar will be reviewed on a quarterly basis, and revised as necessary, by the MDB Committee.

g) The approval calendar, and any quarterly revision, will be disseminated to the respective Sub-Committee Members and the SCF Trust Fund Committee for information.

II.   PIPELINE MANAGEMENT CRITERIA

16.   In proposing an approval calendar for the fiscal year, the MDB Committee will apply the following considerations, on a targeted program basis, if needed to reach a consensus on the pipeline:

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[2] For planning purposes, the SCF pipeline management will follow Trustee's fiscal year (June 30 to July 31).

a)   *Project/program readiness*: Resources should only be committed for projects or programs that are ready to move forward to final approval and implementation so that SCF resources are effectively and efficiently used for on-the-ground activities. Hence, programming projections should be as realistic as possible with regard to the timing of project or program processing and should include information on the expected timeline for committing resources, including the expected date of final MDB Board approval, so that the MDB Committee can accurately predict resource needs and cash flows. Private sector programs encompassing an envelope of funding for a number of projects should be presented to the respective Sub-Committee for approval only when projects utilizing at least one third of the program's resources have been identified and are mandate-ready. Public sector projects and programs will be presented to the respective Sub-Committees for approval before appraisal and negotiations of the investment terms.

b)   Despite best efforts at realistic planning, it is inevitable that there may be delays in processing of programs and projects. The MDB Committee will review any public sector program or project for which SCF funding has been approved, but which has not been submitted for MDB Board approval within 12 months of the respective Sub-Committee funding decision. For private sector programs, the MDB Committee will review any program for which SCF funding has been approved but more than a third of the funds within the program have not been submitted for Board approval within 12 months from the respective Sub-Committee funding decision. Based on its quarterly review, the MDB Committee may decide that the approved funds should be reallocated so as to provide more funding space for other faster-moving projects and programs. Should the MDB Committee decide this course of action, it will inform the respective Sub-Committee of the reallocation by mail. Any project or program for which SCF funding has been reallocated due to delays in its processing may be resubmitted to the MDB Committee for reentry into the pipeline subject to availability of funds as soon as the delays have been resolved.

c)   *Balance*: The pipeline management system should ensure that there is a balanced approach amongst regions and investment plans. Therefore, in agreeing upon the approval calendar, the MDB Committee should consider the funds already approved under each investment plan and, in the aggregate, for each region and should seek to achieve an equitable balance among plans and regions. In order to promote a strong partnership and collaboration among the MDBs, it is also important to strive for active engagement of all the MDB partners. The MDB Committee will strive to promote a balanced distribution of funds through each of the MDB partners.

d)   *Public sector-private sector distribution*: SCF funding is to be used to support both public and private sector activities. It is important to have a critical mass of operations of each. The distribution of activities to the public and private sector should be considered if it is necessary to prioritize the approval schedule of projects and programs in the pipeline. The distribution of available funding should reflect the proportionate allocation of resources to public sector and private sector investments agreed in the country investment plans, whenever possible.

e)   *Co-financing opportunities:* Leveraging resources beyond the SCF funding is an important element of the SCF objectives. It is important to consider if potential sources of co-financing may be jeopardized should a program or project be delayed.

f)   *Criteria specific to SCF Targeted Programs:*

        FIP: Addressing a diversity of drivers of deforestation and forest degradation: Addressing a diversity of drivers of deforestation and forest degradation will help to strengthen the impact of the FIP as a mechanism to effectively implement REDD+. The MDB Committee should, when necessary, give priority consideration in scheduling the approval of FIP funding for programs and projects that reflect drivers of deforestation and forest degradation not yet piloted in the FIP.

        PPCR: Addressing climate resiliency in a diversity of economic sectors: Diversity in addressing impacts and future risks of climate variability and change applied in PPCR will help to strengthen the impact of the PPCR as a pilot to demonstrate mechanisms to address resiliency to climate change. The role of the private sector has been identified as especially important yet challenging. The MDB Committee should, when necessary, give priority consideration in scheduling the approvals to programs and projects that reflect diverse economic sectors or innovative approaches.

        SREP: Addressing energy access based on renewable energy through private sector investments. SREP will support programs and projects that pilot new approaches to address the growing energy demands of low-income countries by promoting renewable energy. The MDB Committee should, when necessary, give priority consideration in scheduling the approvals to programs and projects that reflect higher potential for providing energy access or innovative approaches.

17.   In discussing the approval calendar, the MDB Committee will screen the pipeline first for project/program readiness before assessing projects and programs against the other considerations which are all considered equally important.

III. MANAGING PIPELINE CHANGES

18.   Any investment plan should be considered a dynamic document, with the flexibility to consider changing circumstances and new opportunities. Experience from the CTF programming process has shown that there is need for a transparent communication to the Trust Fund Committee in the event of changes in the sector or sub-sectors selected for CTF support, or requested increases in the resource envelope. The proposal below regarding updating investment plans and managing pipeline changes builds on the experience from the CTF pipeline management approach.

19.   It is proposed that any change to the investment plan deemed to be strategic by the country or the MDBs should be presented to the relevant Sub-Committee for review and endorsement. In particular, guidance and endorsement from the Sub-Committee will be sought, through a decision by mail, for the following types of change to an investment plan:

  a)   increasing the resource envelope for the investment plan;

  b)   adding, dropping, or shifting resources between

  - *PPCR*: specific sectors or sub-sectors by more than 15 percent of the funding envelope of the investment plan or by more than US$10 million;
  - *FIP*: drivers of deforestation and forest degradation by more than 15 percent of the funding envelope of the investment plan or by more than US$ 8 million;
  - *SREP*: projects that adopt different renewable energy technologies by more than 15 percent of the funding envelope of the investment plan or by more than US$ 5 million;
  whichever is lower;

  c)   shifting resources between the private and the public sector.[3]

20.   Any other amendments to the investment plans will be notified to the relevant Sub-Committee through the quarterly update of the SCF pipeline, which will include information on the status of each of the projects and programs in the pipeline.

21.   When the proposed changes to an investment plan require endorsement by the relevant Sub-Committee, a request to the Sub-Committee should be submitted for review. Such a request should include the following:

  a)   review of the status of the implementation of the original investment plan;

  b)   explanation of the circumstances and rationale for revising the investment plan and making changes to the projects or programs included;

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[3] Projects implemented by the private sector arms of the MDBs are classified as private sector projects, whereas those implemented by the public sector arms of the MDBs are classified as public sector projects. It is recognized that projects implemented by the public sector arms of the MDBs may also engage the private sector through on-lending and/or other schemes.

c) description of the proposed changes; and

d) assessment of the potential impact of the proposed changes on achieving the objectives and targets of the original investment plan.

22. The Sub- Committee will review the revised investment plan and consider whether or not to endorse the proposed changes. If the proposed changes are endorsed by the Sub-Committee, the pipeline will be updated accordingly.

23. If the proposed changes are not endorsed, the Sub-Committee may propose an alternative way forward, in consultation with the concerned country and MDBs. Such proposals will indicate whether the projects and programs concerned will be removed from the pipeline, whether the associated resources will be released from the funding allocation to the investment plan, and, in the case of funding being released, how the released resources may be used.

24. In the event that funding is released from an investment plan, the Sub-Committee may consider as a first option to keep the released resources available to the country for funding of new projects or programs for that country or region within the scope of a revised investment plan to be endorsed by the Sub-Committee.

25. Other options for programming the released resources within a targeted program of the SCF may include:

a) reallocating the released resources for another endorsed investment plan to fund projects and programs therein;

b) reserving the released resources for a new investment plan;

c) adding the released resources to the funding reserve of the relevant SCF targeted program; or

d) making other arrangements as appropriate.

26. Furthermore, it is proposed that the above process of releasing resources and subsequently programming such resources at the level of an investment plan also apply to projects or programs not approved by the Sub-Committee upon submission (or resubmission, if applicable) or withdrawn by the countries and MDBs.

Annex 1

Template for SCF Targeted Program - Quarterly MDB Information Requirement/Update

MDB:

Program:

Preparation Date

	Project 1	Project 2	Project 3	Project…
Project Title/Program Name				
Country				
SCF Project Funding				
Project Preparation Grant				
Funding Class - Loan/Grant				
Loan Term – Hard/Soft/Market				
Projected Submission Date for SC Approval				
Projected MDB Board Approval Date				
Project Class - Private/Public				
Technology (SREP)/ Economic Sector (PPCR)/ Driver of Deforestation/Forest Degradation (FIP)				
Leveraged Funds				
MDB - ADB				
AfDB				
EBRD				
IBRD				
IDB				
IFC				
Government				
Private				
Others (Pls. specify)				
1-				
2-				
3-				
REMARKS:				