



Meeting of the SCF Trust Fund Committee

Washington D.C. (Virtual)

June 25, 2021

COMMENTS AND RESPONSES



Documents

- SREP Operational and Results Report (SCF/TFC.15/3.3)
- SCF Risk Report (SCF/TFC.15/4) / Focus on SREP

Questions and Comments

1. **In the SCF Risk Report, we appreciate the introductory remark that, because of the Covid-19 pandemic, SCF recipient countries are forced to recalibrate their budgetary priorities, away from climate-related projects. To what extent did this already or is this expected to affect the programming of the remaining SREP pipeline, notably because MDB funding so far foreseen for SREP projects is re-allocated to Covid-19 emergency measures?**

RESPONSE: This is very difficult to assess and forecast. However, we believe this is a material risk that could result from the pandemic which is important to highlight. To date, MDBs have only reported two PPCR projects have been cancelled due to the pandemic. In the case of SREP, CIFAU has not been notified of any direct cancellation of pipeline projects resulting from Covid-19. The pandemic has slowed the preparation activities over the last year, and some projects have lost a little momentum as a result, however no change in programming is anticipated. We have requested further information from the MDBs on this question specifically, and this concern is worth raising to them during the Committee meeting

2. **With regards to the projects highlighted for implementation risk against the three relevant criteria (tables 12, 13 and 14), which outline certain projects with no disbursements at all, how do the MDBs evaluate the risk that these projects are cancelled?**

RESPONSE: In the past, Committee members expressed interest in receiving information pertaining to MDBs' potential decisions to cancel projects. Some MDBs have provided the following links to their guidelines.

- [ADB – Project Administration Instructions: Suspension and Cancellation of Loans](#)
- [ADB – Externally Financed Grant Regulations Applicable to Grants Financed from a Trust Fund or Other External Sources and Administered by ADB](#)
- [AfDB – Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees](#)
- [IBRD - Trust Fund Handbook \(see Section 5.9\)](#)

3. **We take note of the remark concerning the allocation of SREP balances (Chapter 2.3 point 11), stating the possible need to revise the funding allocation process. Please explain why such a change appears necessary and what are the ideas or proposals for an alternative allocation process.**

RESPONSE: Since the last reporting period, the CIFAU and MDBs have been reviewing the status of the projects in the Sealed pipeline on a continuous basis in order

to ensure the remaining funds are committed in a timely manner. As a result of a combination of factors (including non-Covid related), the priority and/or feasibility of some projects changed. As per the current procedures, MDBs are checking the status of the reserve pipeline projects – noting that the projects in the Reserve are not necessarily “ready-to-go” given they are in a dormant status, and might take more time than desired to bring them up to readiness, so at this stage, “project swapping” is not as dynamic and quick procedure.

While the expectation is that some projects will move from the Reserve to the Sealed (in fact, recently IBRD requested to upgrade a \$10M grant Zambia project), we still anticipate that there will be a remaining balance of funds that would be small relative to the effort needed to address the current procedures of allocation (requiring Investment Plan revision etc). Furthermore, even if these funds are allocated now, looking forward, this issue would reappear should there be any small cancellation of project funds, for example resulting from a restructuring.

Given this, the MDBs and the CIFAU would review the current allocation procedures, such that small amounts of funding can be quickly (re)deployed/allocated according to needs and readiness. As of now, no specific proposals have been made as we are in the preliminary stages of discussions, but – if needed – revised procedures would be ready by the next TFC meetings.

4. We noticed that disbursements are still low and notably slowed down considerably in FY20. Is this due to Covid-19? What are the expectations for FY21?

RESPONSE: The decline in disbursements observed in the first half of 2020 is partly due to impacts of the pandemic which began in the second quarter of 2020. The downward trajectory of disbursements is expected to persist through the greater part of 2021 concomitant with lockdown measures and restrictions in mobility put in place by countries to mitigate the spread of the pandemic. Beginning 2022, disbursements are expected to begin to accelerate as pandemic-related restrictions begin to ease and vaccination programs gain better traction across recipient countries.

5. We thank the CIF AU for the detailed, extensive and well illustrated results reporting, which also addresses contributions to SDGs and incorporates insights from special studies (e.g. employment). We have a few specific comments and questions:

a. There are still sizeable gaps between actual and expected results. How do the CIF AU and the MDBs appraise the chances that SREP objectives (expected results) are eventually met or exceeded?

RESPONSE: 14 completed CTF reports show that around 74 percent of the co-financing target was achieved. As for SREP, there are three completed investment plan projects (excluding the Armenia Geothermal Project in which SREP money was used on the drilling component and not enough steam was discovered for the project to proceed, ie exploratory drilling), most of which have almost achieved their set out targets. Currently the SREP portfolio is still very young but is maturing. One third of the portfolio is still on 0-2 years of implementation. We expect the numbers to be picked up as more projects mature and are already seeing good increases – the indicators co-financing (28%) and people (135%) and businesses (193%) with improved access to electricity saw the larger YoY increase this year. Electricity output increased with 43%, GHG with 130% and installed capacity with 15%.

- b. **We noticed in particular a large difference between results reporting under chapter 5 and reporting on co-financing under chapter 3.2. Thus, USD 551 million SREP funding for 48 MDB approved projects have mobilized USD 856 million co-financing (according to the results report) whereas USD 603.6 SREP funding for 53 SREP SC approved projects should mobilize USD 3.03 billion, including USD 682 million from the private sector (according to chapter 3.2). What are the reasons for this huge discrepancy?**

RESPONSE: Chapter 3.2 looks at the expected co-financing, while the 856 million from chapter 5 looks at what has been achieved. Additionally, the difference in number is also due to the status of the portfolio – Chapter 3.2 looks at projects at TFC board approval whereas chapter 5 looks at projects that are MDB-board approval. Another difference is the cut-off point of the data. Results are only reported once per year – and these are from end year 2020, while portfolio data is more updated with a cut-off point at end-March 2021.

- c. **This is even more apparent in the figures for the private sector (3% of USD 856 million, i.e. USD 25.7 million achieved vs USD 682 million expected). What are the reasons for that?**

RESPONSE: As mentioned in point A, the SREP portfolio is still young in comparison to the other three CIF programs, thus the numbers are only beginning to pick up, now that the portfolio is beginning to mature, private sector included, this year saw the largest increase YoY in both co-financing and private sector. Many projects also saw implementation delays due to the external issues, thus slowing down many of the progress – closure dates were pushed back by a couple of years.

- d. **How confident are the CIF AU and MDBs that expected co-financing, overall and in particular from the private sector, will eventually be achieved?**

RESPONSE: Completed CTF projects are around 74 percent of their co-financing targets. For private sector, it is 60 percent achieved. It's safe to say that the number for private sector co-financing will increase significantly in the next few years as projects begin to mature. However, it is important to keep in mind that just like the rest of the CIF portfolio, many of these projects work with frontier technology thus entailing a high level of risk, with SREP adding another level of risk and complexity due to the targeting low-income recipient countries.

6. **As indicated in the report, the SREP sealed pipeline has been significantly shortened. Besides, submission dates have been moved and now include projects expected only in 2023. This contradicts earlier statements (and expectations) that the SREP programming (excluding reflows) would be finalized by FY22. At the same time, the available funding exceeds the needs of the sealed pipeline (by USD 20.5 million grant and USD 28.5 million non-grant contributions).**

- a. **What are the status and chances for a successful programming of the (four) projects in the sealed pipeline?**

RESPONSE: As mentioned in our response to question 3 above, the MDBs have been continuously reviewing the status of the Sealed pipeline. Thus, we anticipate that the four projects in the pipeline will move ahead as planned.

- b. **What are the reasons and outlook for the projects which were moved to the reserve pipeline? Why were they not kept in (or others moved to) the sealed pipeline, given that there is available funding?**

RESPONSE: As also mentioned in our response to Question 3 above, over the last year circumstances/priorities have changed with countries and the private sector (in the case of IFC), leading projects to be moved out of the Sealed pipeline. With this, MDBs are verifying the status of the projects in the Reserve pipeline, but given they were in a “Reserve” status for some time, they have been dormant. Furthermore, with the current pandemic circumstances, there isn’t an automatic/dynamic switch of projects – all reserve pipeline projects need to have their priority needs confirmed and readiness assessed – as per the current allocation procedures. Also, as noted above, since the SREP ORR was prepared, we can confirm an IBRD request to upgrade a \$10M grant project in Zambia from the Reserve to the Sealed pipeline.

10 June 2021