

CLIMATE INVESTMENT FUNDS

SREP/SC.6/4/Rev.1
October 26, 2011

Meeting of the SREP Sub-Committee
Washington, D.C.
November 1, 2011

Agenda Item 4

DISTRIBUTION OF RESOURCES TO SREP PILOT COUNTRIES TAKING INTO ACCOUNT GRANT AND CAPITAL CONTRIBUTIONS

Proposed Decision by the SREP Sub-Committee

The Sub-Committee reviewed document SREP/SC.6/4/Rev.1, *Distribution of Resources to SREP Pilot Countries taking into account Grant and Capital Contributions*, and agrees to the proposal as an indicative distribution of SREP resources to the pilot countries and to serve as a basis for the planning and development of investment plans, projects and programs.

I. INTRODUCTION

1. This note presents a proposal for distributing the resources that are to be made available under the SREP to the pilot countries, taking into account the grant and capital contributions to the program. The note was prepared jointly by the CIF Administrative Unit and the MDB Committee. It takes into account prior decisions of the Sub-Committee, including the approved documents on *SREP Programming Modalities and Operational Guidelines* and *SREP Financing Modalities*.

2. The proposed allocation of SREP resources does not determine the financing instrument that a particular investment project or program will utilize. That is to be determined in accordance with the *SREP Financing Modalities*. Funds drawn from the grant contributions may be used for all financing instruments foreseen under the SREP, including grants, performance-based payments, concessional loans, and guarantees. Funds drawn from the capital contributions cannot be used for financing instruments that require grant payments.

3. While it is recognized that an indicative distribution of resources should not be considered as an entitlement to such funds, for planning purposes it is very helpful to provide some indication of the type of resources that may be available to each pilot country. Such information will help the countries and the MDBs to design an investment program suitable to the available funding.

II. ALLOCATION OF FUNDING TO THE SREP PILOT COUNTRIES

4. At its November 2010 meeting, the SREP Sub-Committee discussed the *Proposal for Allocation of SREP Resources to Pilot Programs* (SREP/SC.4/5) and agreed upon the principles for allocating SREP resources, including that all allocation amounts are indicative for planning purposes and that a reserve of the current pledges to the SREP should be established initially at USD 60 million. Additionally, the three following ranges of funding were agreed:

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|------|-----------------------|-----------------------------|
| i. | Honduras and Maldives | USD 25 million – 30 million |
| ii. | Mali and Nepal | USD 25 million – 40 million |
| iii. | Ethiopia and Kenya | USD 25 million – 50 million |

5. According to *SREP Financing Modalities*, countries which are assessed, using the debt sustainability tools of the MDBs, as having high or moderate risk of debt distress are to receive all SREP funding in the form of grants. Countries with low debt risk may receive other forms of SREP concessional funding.

6. In formulating the proposal for allocating SREP grant and capital contributions, the MDB Committee took into account the goal of encouraging the private sector to engage in SREP programs together with the fact that providing non-grant concessional funding to the private sector will not affect the sovereign debt of a country. It is, therefore, suggested that the allocation for each pilot country include a minimum amount of non-grant concessional funding that may be used for private sector projects so as to provide an incentive for the inclusion of the private sector in SREP programs.

III. PROPOSED DISTRIBUTION OF SREP RESOURCES FROM GRANT AND CAPITAL CONTRIBUTIONS

7. After reviewing a number of options for distributing the SREP grant and concessional resources, the MDB Committee agreed to recommend the proposal outlined below to the Sub-Committee for its review and approval. This proposal is based on the following considerations:

- a) When the Sub-Committee agreed on the allocation of resources to the SREP pilots in November 2010, pledges to the program totaled approximately USD 300 million. Of this amount, USD 220 million was being made available through grant contributions and USD 80 million was being made available through capital contributions. The SREP Sub-Committee agreed to allocate USD 240 million to the six pilots (assuming that each pilot would receive funding at the top of its range) and USD 60 million to a reserve, without determining how such funding should be drawn from the grant and capital contributions.¹
- b) Under the reserve, USD 50 million is available for projects and programs, since it is expected that USD 10 million will be required to finance project implementation and supervision services.² It is proposed that USD 17 million of the reserve available for projects and programs be drawn from grant contributions and USD 33 million be drawn from capital contributions.³ Grant resources will be required to finance the project implementation and supervision services.
- c) Countries with high or moderate risk of debt distress are to receive only grant funding, with the exception of USD 5 million in resources from the capital contributions to be provided as an incentive to develop private sector projects and programs. This would apply to four of the six pilot countries: Ethiopia, Maldives, Mali, and Nepal.
- d) The remaining USD 80 million in SREP funding would need to be drawn from USD 45 million in grant contributions and USD 35 million in capital contributions. These resources would be distributed to the remaining two pilot countries (Honduras and Kenya) in proportion to each country's share of the USD 80 million.⁴

¹ It is proposed that the Sub-Committee consider at its meeting in May 2012 the allocation of resources that have been pledged above the initial funding level of USD 300 million.

² See *Costs of MDB Project Implementation Support and Supervision Services for Public Sector Programs and Projects under the SCF*. The SCF Trust Fund Committee has agreed that MDB fees should be paid from the reserve. Based on projections, it is predicted that around USD 10 million will be required to implement SREP investments, thereby reducing the reserve available for projects and programs to USD 50 million.

³ The initial proposal was that half of the reserve available for projects and programs be drawn from grant contributions and the other half from capital contributions. An adjustment to the distribution of the reserve was made subsequently in order to accommodate the recent change in the risk rating of debt distress for Mali from low to moderate so that the distribution for Honduras and Kenya does not change from the original calculation when Mali had a low risk rating.

⁴ A similar approach has been agreed for the allocation of resources under the Forest Investment Program. Also see footnote 3.

8. The following table summarizes the results of the proposed distribution.

Proposed Distribution of SREP Resources from Grant and Capital Contributions
(Million USD)

SREP Countries	Debt Distress Risk	Allocation at Top of Range	Grant Contributions	Capital Contributions
Ethiopia	Moderate	50	45	5
Honduras	Low	30	20	10
Kenya	Low	50	33	17
Maldives	Moderate	30	25	5
Mali	Moderate	40	35	5
Nepal	Moderate	40	35	5
Total		240	193	47
Funding reserve for projects/programs		50	17	33

9. The Sub-Committee is invited to review the proposed distribution of resources with a view to approving it as a basis for the planning and development of SREP investment plans, projects and programs.