Climate Investment Funds

SREP/SC.8/6
October 15, 2012

Meeting of the SREP Sub-Committee
Istanbul, Turkey
October 31, 2012

Agenda Item 7

# Proposal for Allocation of SREP Resources

## PROPOSED DECISION

The SREP Sub-Committee reviewed document SREP/SC.8/6, *Proposal for Allocation of SREP Resources*, and approves the procedures for allocating reserve resources presented as option [1][2], including the proposed procedures for selecting and approving projects. The Sub-Committee agrees that the task of reviewing and scoring project concepts should be assigned to […], and approves the criteria for ranking received proposals.

The Sub-Committee invites the CIF Administrative Unit, in collaboration with the MDB Committee, to initiate steps to launch in 2013 a call for proposals to be financed from the reserve.

## I. INTRODUCTION

1. At its May 2012 meeting, the SREP Sub-Committee requested the CIF Administrative Unit to submit a revised proposal on selecting projects for funding from the SREP reserve for consideration in November 2012, taking into account comments made by the Sub-Committee members during the meeting. The Sub-Committee noted its strong support for the development of a scorecard to assist the Sub-Committee selecting project proposals and a phased approach to approving projects under the reserve.

2. In the discussions of the three Sub-Committees under the SCF, there is a common thread that the reserves in the three programs should be utilized, at least in part, to foster greater private sector engagement and development. A common approach for the three SCF program was established, including the goals, options, procedures, and general criteria.

3. This revised proposal for SREP discusses the common goals for the reserve funds under the SCF programs, outlines options and procedures for allocating funds with a common approach among the SCF programs, and provides a scorecard for prioritizing SREP activities incorporating criteria both common to all SCF programs and specific to SREP.

## II. COMMON GOALS FOR THE RESERVE FUNDS UNDER THE SCF PROGRAMS

4. During their discussions on the use of reserves in May 2012, as well as through inter-sessional consultations, the three sub-committees each expressed an interest in using the reserve funds as an incentive for: (a) engagement with the private sector, both direct and indirect, and (b) encouraging a results-based and innovative focus.

### Engaging the private sector

5. Under the CIF, resources have been allocated through the development of a country-owned investment plan in which programmatic goals are defined and project concepts proposed to meet those goals. These concepts may directly and indirectly 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, allocate subsidies on a competitive basis (e.g., results-based financing), support private-public partnership (PPP), or provide enabling infrastructure .

6. For the SCF programs, in advance of developing the investment plans, countries were informed of the indicative resource allocation that would be available to finance project and program activities. Investment plans have been developed in collaboration with the MDBs through a process that included consultations with national stakeholders.

7. In proposing how to allocate the CIF funds among the proposed programs and projects, it was found that the concepts proposed 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 recognized that to promote private sector engagement it is useful for programming approaches to explicitly allocate resources to private sector interventions. The report notes that:

> "In contrast to the CTF, the SCF trust fund committees have been far less vocal about their expectations for private sector investment, and the results have been quite different. Even when there has been a clear need and ability for the private sector to support transformational objectives in SCF pilot countries, recipient governments have been less willing to allocate resources to such initiatives, especially grant funding. In some pilot countries, it has even occurred that governments were initially supportive of private sector programs within their investment plans but changed their minds when they learned that they could take their CIF allocation in the form of grants only. In these instances, private sector programs were withdrawn from consideration in investment plans because governments preferred to use grants to support public programs. In at least two FIP pilot countries, governments have been open about not accepting even highly concessional loans for public projects because they did not want to add to their debt burdens. In these cases, grant funds were allocated to public sector government-led programs, and loan funds were allocated to private sector programs.[1] These experiences show that without expectations regarding the promotion of private sector engagement being built into the Fund's structure, there are inherent biases against attention being paid to opportunities for engaging the private sector in addressing low-carbon and climate-resilient development."

8. In considering the use of the reserve funds, the SCF Sub-Committees each agreed that the reserve could usefully be used to address this issue and encourage the engagement of the private sector in SCF programs.

9. Activities to promote private sector engagement may take multiple forms. In some cases, engagement can focus on private sector projects where at least 50% of the borrower's shares are owned by private entities. In others, public sector activities can include strengthening regulatory and incentive environments or catalyzing private sector investments through PPP structures or on-lending through state-owned financial institutions.

10. Under current arrangements within the CIF, 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**

11. The Sub-Committees also showed an interest in using the reserves under each SCF 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 SCF pilot program by financing project approaches, technologies, financial leverage or

[1] This reflects a clear misperception on the part of recipient governments, since CIF funds directed toward private sector initiatives and channeled through MDBs do not contribute to sovereign debt burdens (i.e., there is no guarantee by or borrowing obligation incurred by the government).

partnerships that were not already encompassed in the endorsed investment plans. In this regard, the SREP Sub-Committee noted the value of a "challenge fund" model.[2]

## III. PROPOSED ARRANGEMENTS FOR ALLOCATING RESERVE RESOURCES

12. There are two options that could be used to respond to this guidance. With a view to maintaining consistency and commonality across the SCF programs, it is proposed that the same arrangements be adopted for all three programs. Both options assume reserve funding currently available will only be allocated to projects in initial pilot countries.[3]

**Option 1:**

13. Reserve resources are divided into two clusters:

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

b) Cluster II: recipient of funding would be for public sector for activities that remove a barrier to private sector development activities or provide on-lending to the private sector through MDB public sector arms.

14. The relative distribution of resources between the two clusters could be determined by each Sub-Committee as appropriate to the context of each program, although a floor of 30% for each cluster is recommended. The procedures for allocating resources from each cluster would be different, reflecting the different role governments play in each type of activity.

**Option 2:**

15. All reserve resources would be used for directly financing private sector projects, working through MDB private sector arms and using the procedures identified for Cluster I below.

## IV. PROPOSED PROCEDURES

16. The following procedures are proposed for selecting and approving the projects to be financed through the reserve funds based on Options 1 and 2:

### Call for Proposals

17. It is proposed that each Sub-Committee be invited to agree that the reserve funds be made available when (a) there are sufficient funds available to justify the allocation of funds, and (b) sufficient progress has been made in implementing the program to justify allocating additional funds.

18. A call for proposals would be prepared by the CIF Administrative Unit, working in collaboration with the MDB Committee. The call for proposals would include information on:

[2] See Summary of Co-Chairs of the March 2012 Intersessional Sub-Committee meeting.
[3] For SREP, the initial six pilot countries are Ethiopia, Honduras, Kenya, Maldives, Mali, and Nepal.

a) the SREP objectives, principles and investment criteria agreed in the policy documents;

b) a list of the program's pilot countries;

c) information on the size of available financing;

d) guidance of which types of organizations/entities are eligible to apply (drawing on eligibility guidelines of MDB private sector arms for cluster I in particular);

e) a scorecard with criteria that will be used to evaluate, score and rank proposals for final consideration by the Sub-Committee;

f) guidance on the format to be used to submit program/project concepts (recognizing MDBs will not undertake full project preparation processes); and

g) timeline for submitting, reviewing and approving proposals.

19. The call for proposals would be sent to the Sub-Committee for approval. Once approved, the call for proposals would be widely distributed through the following channels:

a) posted on the CIF and MDB websites;

b) distributed to pilot country focal points for circulation within national constituencies and networks;

c) distributed to the Sub-Committee members and observers for circulation among their networks;

d) distributed to MDB focal points for circulation among MDB task teams or other thematic public and private sector networks recommended by MDB focal points; and

e) disseminate the call for proposals in the Climate –L list and the Energy-L list.

**Preparation of Proposals**

20. Program/project concepts that meet the criteria described in the call for proposals would be submitted to: (a) a pilot country focal point, (b) one of the CIF MDB partners, and (c) the CIF Administrative Unit. The CIF Administrative Unit will collate all the program/project concepts received within the agreed time, and share those concepts with the appropriate pilot country focal point and the MDBs for information.

21. For each program/project concept, the proposal should clearly identify the MDB that would be responsible for supervising the proposed program/project, and the requested amount of CIF funding.

## Under Option 1

*For Cluster I projects:*

22. Experience from existing competitive development finance mechanisms[4] suggests that a "Fund Manager" should be tasked with reviewing and scoring concepts against the scorecard/criteria published in the call for proposals. The scorecard will serve as the guide for transparently and consistently scoring each concept.

23. Within the CIF, the task of reviewing and scoring concepts could be delegated to:

a) A committee drawn from the relevant roster of experts used for investment plan review;

b) A committee drawn from the roster of experts, MDBs, and the Administrative Unit;

c) The MDB Committee; or

d) The Administrative Unit.

24. The concepts would be listed and ranked based on their scores, and taking into account the resources available for Cluster I activities, a preliminary shortlist of concepts will be prepared. The CIF Administrative Unit would send any concept on the preliminary short list to the relevant government focal point for a no-objection approval to retain the concept on the short list. If approval is not granted, the next-highest concept on the ranked list would be added to the short list. In asking for a concept to be deleted from the short list, the government should provide a short explanation as to why approval was not granted.

25. The CIF Administrative Unit would submit the finalized shortlist of concepts to the relative Sub-Committee for approval based on available resources. [Recognizing the limited availability of resources, the Sub-Committee may wish to put a cap on the total resources that may be allocated to activities in each country or a cap on the total resources that may be allocated to an individual program/project.]

*For Cluster II projects:*

26. These projects would follow the same approach with the exception of the no-objection approval, as proposals would have been submitted by governments (including via MDBs) at the outset.

*Under Option 2*

27. All procedures would follow those for Cluster I.

[4] The Africa Enterprise Challenge Fund provides a useful model: http://www.aecfafrica.org/index.php?option=com_content&view=article&id=14&Itemid=30

28. Once a program/project concept has been selected for funding, its further development, approval and implementation will follow the CIF and MDB procedures followed for other activities financed under endorsed investment plans.

## V. SCORECARD FOR PRIORITIZING SREP PROPOSALS

29. The scorecard for prioritizing SREP proposals will include six general criteria common to all SCF programs and two SREP-specific criteria. Each criterion will be rated on a scale of 1 (lowest) to 5 (highest). Project proposals will be prioritized based on the sum of the scores across all ten criteria. A maximum score of 40 could be given to a proposal.[5]

### General Criteria

a) Alignment with the objectives of the country investment plan. This will be a qualitative assessment, with 1 being very weak and 5 being very strong.

b) Consistency with the SREP objectives, principles and investment criteria.[6] This will be a qualitative assessment, with 1 being very weak and 5 being very strong.

c) Level of innovation. This is a qualitative assessment, with 1 being very weak and 5 being very strong. It should take into account, for example, innovative technology choice, stimulation of underdeveloped markets, taking a good practice to scale, creating new partnership, piloting a new approach to "business-as-usual", or use of an innovative financing instrument.

d) Projected leverage of private sector investments to the SREP funds. A higher score would indicate a higher leveraging ratio. If projected leveraging for SREP funds is around 1:2, a score of 1 will be given. If projected leveraging exceeds 1:10, a score of 5 will be given. The investments to be leveraged should be directly under the scope of the project with explicit targets and timeframes to be monitored under the project's results framework.

e) Rate of funding approval under the endorsed investment plans. A higher score would indicate a higher level of funding approval. If less than 20 percent of the indicative funding allocated to the endorsed investment plan has been approved by the Sub-Committee, a score of 1 will be given. If more than 80 percent has been approved, a score of 5 will be given.

f) Timely delivery of projects under endorsed investment plans. A higher score would indicate the timely meeting of agreed benchmarks. If more than 1 project is in the "red" zone, a score of 1 will be given. If all projects are in the "green" zone, a score of 5 will be given.

[5] The Sub-Committee may wish to consider giving higher weights to some criteria than to others.
[6] See document SREP/SC.IS.2/3, *Clarification of SREP Investment Criteria*, February 17, 2012

**SREP Program-Specific Criteria**

30. Based on the revised SREP results framework approved by the SREP Sub-Committee and the SCF Committee, respectively, two additional SREP-specific criteria are proposed here.

a) Increased supply of renewable energy measured in MWh. Rating of this criterion for a proposal will be relative to other proposals, with a score of 5 given to the proposal that expects to generate the most MWh, and 4 to the second highest, etc.

b) Increased access to modern energy services measured in number of women and men who will directly benefit from the project. Rating of this criterion for a proposal will be relative to other proposals, with a score of 5 given to the proposal that expects to provide the most number of women and men and 4 to the second highest, etc.

**Scorecard**

31. To the sum up the criteria outlined above, the following table provides a scorecard for prioritizing SREP project proposals.

| Criteria | | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1 | Aliggement with country objectives | Very weak | Weak | Adequate | Strong | Very Strong |
| 2 | Consistency with SREP objectives | Very weak | Weak | Adequate | Strong | Very Strong |
| 3 | Level of innovation | Very weak | Weak | Adequate | Strong | Very Strong |
| 4 | Leveraging ratio of private sector investments | Around 1:2 | Around 1:4 | Around 1:6 | Around 1:8 | Above 1:10 |
| 5 | Rate of funding approval (% total) | Below 20% | 20%-39% | 40-59% | 60-79% | 80% or above |
| 6 | Timely delivery of projects | >1 red | 1 red | >1 yellow | 1 yellow | all green |
| 7 | Increased supply of RE (MWh) | Relative to other proposals | | | | |
| 8 | Increased access (number of benefiticiaries) | Relative to other proposals | | | | |