

# CLIMATE INVESTMENT FUNDS

SREP/SC.5/5  
June 7, 2011

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Meeting of the SREP Sub-Committee  
Cape Town, South Africa  
June 21, 2011

Agenda Item 8

**PROPOSAL FOR THE ALLOCATION OF THE FUNDING RESERVE UNDER SREP**

**Proposed Decision by SREP Sub-Committee**

The Sub-Committee reviewed and discussed document SREP/SC.5/5, *Proposal for the Allocation of the Funding Reserve under SREP*. The Sub-Committee agrees to provide written comments on the two options by July 29, 2011, and requests the CIF Administrative Unit, in collaboration with the MDB Committee, to present a revised document at a future meeting. The Sub-Committee also agrees to consider the timeline for revisiting the allocation of the reserve at its meeting in June 2012 in light of experience to be gained in developing SREP investment plans and the early implementation of projects and programs.

## INTRODUCTION

1. At its meeting in November 2010, the SREP Sub-Committee approved the following decision regarding the allocation of SREP resources:

The Sub-Committee, having reviewed document SREP/SC.4/5, *Proposal for the Allocation of Resources to the SREP Pilots*, agrees that the following principles should guide the allocation of resources under the SREP:

- a) All allocation amounts are indicative for planning purposes. Approval of funding will be on the basis of high quality investment plans and projects.
- b) A reserve of the current pledges to the SREP should be established initially (USD 60 million)<sup>12</sup>.
- c) Each pilot country may develop an SREP investment plan taking into account a minimum of USD 25 million for its investment plan.
- d) Based on the quantitative index presented in document SREP/SC.4/5 that examines country size, potential for achieving results, and country development challenges, the following three ranges of funding are agreed:
  - 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
- e) Countries may program beyond these ranges with a view to encouraging funding from other development partners to support their investment plans and to seeking additional SREP resources from the reserve.
- f) Funding from the reserve may be allocated to projects in the investment plans once the investment plans for all six pilots have been endorsed.
- g) The Administrative Unit and the MDB Committee are requested to propose, for review and approval by the Sub-Committee at its next meeting, criteria for allocating the reserve amount.

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<sup>1</sup> The amount of the reserve is initially established at USD 60 million based on current pledges to the SREP. The reserve amount may change due to, among other things: (a) additional pledges and commitments, (b) investment income or exchange rates, and (c) return of unused funds to the program trust fund from funds previously allocated to projects. With respect to the latter, the Sub-Committee will agree on criteria for pipeline management at a future meeting.

2. Further to the request in sub-paragraph (g) above, this paper proposes options for the criteria to be applied in determining the allocation of the reserve. The Sub-Committee is invited to review and provide comments on the options.

### **OPTIONS FOR DETERMINING INVESTMENTS TO BE FUNDED FROM THE RESERVE**

3. This paper proposes two options for the Sub-Committee to consider in determining the criteria for the allocation of the reserve. Under the first option, the Sub-Committee would make a qualitative comparison of a project concept included in the country's investment plan against the set of approved project criteria and SREP principles. Under the second option, the Sub-Committee would base its decision on a country's readiness to absorb additional resources and demonstrated progress and an assessment of the project concept against one or more quantitative project criteria.

#### **Option 1: Assessment of projects concepts**

4. This option proposes that reserve monies be allocated taking into account the agreed project criteria listed in the programming and design documents (see paragraph 8 below). The projects should be considered in the context of the objective of the investment plan, and projects that meet the agreed project criteria and further support the transformational impact of their investment plans may be prioritized.

5. The project concepts submitted by the government and MDBs would be assessed in light of their potential to meet the approved project criteria provided in the programming modalities, including: increased installed capacity from renewable energy sources, increased access to energy through renewable energy sources, low emissions development, affordability and competitiveness of renewable resources, productive use of energy, economic, social and environmental development impact, economic and financial viability, leveraging of additional sources, gender, and co-benefits of renewable energy scale up. It is recognized that a particular investment may not address all the criteria.

6. The Sub-Committee may also consider other principles of the SREP program such as the project's potential transformative impact, its testing of innovative approaches such as results based financing or other innovative policy or financing instruments, or other characteristics supporting the SREP's key objectives.

7. The Sub-Committee may wish to prioritize certain criteria for allocating the additional resources.

#### **Option 2: Assessment of program development and project design**

8. The second option proposes that the Sub-Committee base its decision on a country's readiness to absorb additional resources, demonstrated progress in advancing the work of the SREP and the project's potential to meet one or more of the quantitative criteria.

9. *Readiness to absorb additional resources and demonstrated progress.* The semi-annual reports on SREP operations provide information on progress in the development and implementation of investment plans, challenges identified and mitigation strategies put in place. Through these reports, the SREP Sub-Committee will have information available on the timely development of investment plans and the delivery of SREP-financed activities.

10. Another indicator of readiness will be provided through the SCF pipeline management. For this purpose, the MDB Committee will track, and report to the Sub-Committee on, progress being made in developing and implementing projects and programs. Timely delivery of agreed targets may be seen as an indicator of a country's progress in absorbing the initial allocation and its readiness to undertake an expanded SREP program.

11. *Design of the projects.* The SREP Sub-Committee should consider the design and potential impact of the project being considered for funding in making its decision. In doing so, it may wish to prioritize one or more of the following criteria:

- i. *Leverage of additional resources.* SREP activities that maximize the leverage of funds from other partners, particularly the private sector, may be prioritized.
- ii. *Access to Energy.* SREP investments that expand the percentage of the population with access to non-fossil fueled electricity may be prioritized.
- iii. *Installed Capacity.* SREP investments that support countries in expanding their generation capacity through renewables in order to ramp up modern energy use and energy access may be prioritized

#### **PROCESS AND SCHEDULE FOR THE ALLOCATION OF THE RESERVE**

12. In accordance with the above decision, funding from the reserve may be allocated to projects in the investment plans once the investment plans for all six pilots have been endorsed. It is proposed that the Sub-Committee revisit the timeline for the allocation of the reserve at its meeting in June 2012. During this time, more information will be forthcoming regarding the types of investments to be financed by the SREP, the needs of the pilot countries, and the progress achieved in each country. More information should also be available as to the actual funding available through the reserve.

13. Once agreement is reached in the Sub-Committee as to the timeliness of considering requests for additional funding from the reserve, pilot countries should be invited to prepare concept notes for projects and programs that further the transformational impact of their investment plans and that meet the agreed criteria for the use of the reserve. The Sub-Committee would be invited to review the concept notes and agree on which projects would receive funding from the reserve. It is proposed that no fewer than 3 countries receive funding from the reserve.

14. It is further proposed that during the period between the endorsement of the investment plans and allocation of the reserve, a pilot country be authorized to draw upon a portion of its SREP allocation to prepare project proposals for concepts included in its investment plan, with a view to seeking financing for the project/program either through the reserve or from other development partners. Such funding would provide the pilot with the opportunity to develop a

comprehensive project or program proposal so as to attract additional funding from the SREP reserve or other sources of climate financing and would facilitate early implementation of the project/program should additional funding become available. Requests for such project preparation funds will be submitted to the Sub-Committee for approval.

## **CONCLUSION**

15. The Sub-Committee is invited to review these two options and to provide comments to assess in the elaboration of one option.