

# CLIMATE INVESTMENT FUNDS

SREP/SC.6/9  
October 26, 2011

---

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

Agenda Item 9

## **REVISED PROPOSAL FOR CRITERIA FOR THE ALLOCATION OF THE FUNDING RESERVE UNDER SREP**

## Proposed Decision by the SREP Sub-Committee

The Sub-Committee reviewed document SREP/SC.6/9, *Revised Proposal for Criteria for the Allocation of the Funding Reserve under SREP*, and agrees to the proposed criteria.

- a) With respect to the process for determining which projects and programs will receive funding from the reserve, the Sub-Committee agrees to the option of [reconvening the SREP Expert Group established to recommend which countries should be selected as pilots to review and inviting that group to recommend which proposals should receive funding from the reserve.] [establishing a working group to review and recommend which proposals should receive funding from the reserve]. The Sub-Committee agrees to review the criteria and process at its meeting in November 2012 when more information will be available regarding the types of investments to be financed by the SREP, the needs of the pilot countries, and the progress achieved in each country, with a view to ensuring that an agreed process is in place so that projects and programs may be selected for funding from the reserve in early 2013.
- b) [Pending such a review, the Sub-Committee agrees that a pilot country may draw upon a portion of its initial SREP allocation to prepare project proposals included in its investment plan for funding from the reserve. The Sub-Committee notes that in accordance with the *SREP Financing Modalities*, no cap is set for SREP project preparation grants. Funds for project preparation grants are to be included within the envelope requested for the Investment Plan. The SREP Sub-Committee is responsible for approving the requested funding.]

or

- b) [Pending such a review, the Sub-Committee agrees that a pilot country may draw upon the reserve to prepare project proposals included in its investment plan for funding from the reserve. The Sub-Committee notes that in accordance with the *SREP Financing Modalities*, no cap has been set for SREP project preparation grants. However, if a country wishes to request preparation grant funding from the reserve, it is expected that such funding will not exceed [xxx] for any one project or program. The SREP Sub-Committee should approve all requests for such funding.]
- c) [The Sub-Committee approves the proposal to provide SREP funding to countries on the SREP “waiting list” to allow them to develop their investment plans in collaboration with the MDBs. Such plans such build upon existing initiatives and programs so as to maximize the benefits and impact of SREP funding. Requests for country preparation funding should be submitted to the Sub-Committee for approval. The country preparation grants should not exceed USD 1 million for a single country and USD 1.5 million for the regional program. The Sub-Committee also requests the SCF Trust Fund Committee to increase the funds

approved for the component of the CIF Administrative Budget for SREP country programming by USD 2.86 million.

With respect to the proposed South Pacific regional program, the Sub-Committee agrees that the following countries should be a primary focus of the program together with a small regional component to develop tools that will be of use to countries in the region and to encourage region-wide sharing of knowledge and lessons: [list of countries to be included]].

- d) The Sub-Committee requests the CIF Administrative Unit, in consultation with the MDB Committee, to prepare a proposal for consideration at the next Sub-Committee meeting as to the timing and process for identifying an additional country or countries from the “waiting list” to receive funding as a pilot under the SREP program

## **I. INTRODUCTION**

1. At its meeting in November 2010, the SREP Sub-Committee agreed upon indicative funding ranges for the six SREP pilot countries and established a reserve. It was also agreed that pilot countries may program beyond the indicative 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. The Sub-Committee requested the CIF Administrative Unit and the MDB Committee to propose criteria for allocating the reserve amount.
2. The CIF Administrative Unit and the MDB Committee prepared a *Proposal for the Allocation of the Funding Reserve under SREP* (document SREP/SC.5/5) and presented options for allocating the reserve to the Sub-Committee at its meeting in June 2011. Based on the comments provided by members of the Sub-Committee, a revised proposal has been prepared and is presented below for the Sub-Committee's consideration.

## **II. CRITERIA FOR THE ALLOCATION OF THE RESERVE**

3. When the reserve was established in November 2010, approximately USD 300 million had been pledged to the SREP. The SREP Sub-Committee agreed upon a range of indicative allocations for the six pilot countries. Should the pilot countries request the upper limit of the range, the total allocation would be USD 240 million. A reserve of USD 60 million was established by the Sub-Committee, of which USD 50 million is available for projects and programs, and USD 10 million for project implementation and supervision services.
4. It is proposed that the allocation of the reserve to projects and programs be based on two criteria: (a) readiness to effectively absorb additional resources, and (b) project design.

### ***Readiness***

5. Demonstration of readiness to absorb additional resources should be a prerequisite for accessing the SREP reserve. One indicator of readiness is progress in developing and implementing projects and programs foreseen in a country's investment plan. A key source of information that can be used for this assessment is the semi-annual reports on SREP operations which provide updates on progress in the development and implementation of investment plans, projects and programs, and, where applicable, reasons for delays and proposed corrective measures. Timely delivery of high quality investment plans and projects may be seen as an indication of a country's interest in the SREP program and its readiness to maximize the use of additional SREP funding.

## ***Project Design***

6. Once readiness is demonstrated, it is proposed that projects be prioritized for funding taking into account, in addition to the existing guidelines and requirements of the SREP, one of the following two criteria: (a) engaging and leveraging investments from the private sector, and (b) utilizing diverse and innovative approaches and instruments.

7. *Engaging and leveraging investment from the private sector.* Given the significant role the private sector can play in bringing expertise and finance to scale up renewable energy investments in SREP pilot countries, it is imperative to incentivize the private sector to participate in, and deliver SREP projects and programs. In preparing SREP investment programs, early experience indicates that it is more difficult to reach agreement on private sector projects to be included in the investment plans than in the CTF. While a detailed analysis of the causes has not yet been undertaken, early indications are that governments may be reluctant to allocate SREP resources directly to private sector projects when the needs for the public sector are so great and the funds are more limited than in the CTF.

8. A number of measures are being considered to increase private sector participation. For example, the proposal on distribution of SREP grant and capital resources<sup>1</sup> before the Sub-Committee recommends that each pilot country receive a minimum of USD 5 million from the SREP capital resources as part of its initial allocation as an incentive to support private sector projects.

9. To further incentivize private sector engagement, it is proposed that in the allocation of the SREP funding reserve, preference be given to projects that maximize the engagement and investment of the private sector taking into account country circumstances.

10. *Utilizing diverse and innovative approaches and instruments.* Given that the SREP is a pilot program aimed at generating lessons and exploring new approaches for scaling up the use of renewable energy, it is desirable that diversity in approaches, financing instruments and delivery mechanisms be tested taking into account the portfolio of SREP projects. SREP countries and the MDBs should be encouraged to pilot new and innovative approaches and explore the use of instruments that are not necessarily widely utilized to deliver renewable energy projects.

11. To this end, it is proposed that in reviewing projects to be financed from the reserve, preference be given to those that pilot new and innovative approaches and/or make use of financing instruments or modalities that have not yet been widely used in the SREP portfolio.

---

<sup>1</sup> *Distribution of Resources to SREP Pilot Countries Taking into Account Grant and Capital Contributions, document SREP/SC.6/4.*

### **III. PROCESS FOR THE ALLOCATION OF THE RESERVE**

12. In accordance with the decision reached at the November 2010 Sub-Committee meeting, 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 currently expected that all investment plans will be endorsed by February 2012. Therefore, the Sub-Committee may wish to revisit the allocation of the reserve at its meeting in November 2012, when more information will be available 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 for the pilot countries.

13. It is proposed that a pilot country may be authorized to draw upon either a portion of its initial SREP allocation or the reserve to prepare project proposals included in its investment plan for funding from the reserve. Such funding would provide the pilot country with the opportunity to develop a more comprehensive and robust project portfolio for possible funding from the SREP reserve or other sources of climate financing and thereby facilitate early implementation on the ground should additional funding become available. In accordance with SREP procedures, requests for project preparation grants would be submitted to the Sub-Committee for approval.

14. To ensure an impartial process of prioritizing projects for funding from the SREP reserve, the Sub-Committee may find it useful to request the CIF Administrative Unit to reconvene the SREP Expert Group that was established to recommend the pilot countries to undertake an assessment, based on the criteria discussed above, of the project concepts for which funding from the reserve is requested and to make recommendations to the Sub-Committee as to which projects should be prioritized. The Sub-Committee would review the report of the Expert Group and decide on the projects and the amount of SREP funding for each selected project.

15. If the Sub-Committee were to agree that the expert group should undertake this task, the group could carry out its work through a 3-5 day virtual meeting. The group previously met using a similar arrangement to recommend countries and regional programs to be included in the “waiting list” of pilots. It is estimated that the cost of reconvening the Expert Group to undertake this task will be in the range of US\$15,000-25,000.

16. Alternatively, the Sub-Committee could establish an internal process to review all proposed project proposals and make a selection based on the information submitted to it. The Sub-Committee could invite clients in [all] [a limited number of] SREP pilot countries to submit project concepts to compete for the available resources. A working group composed of [7] [9] members would review the proposed proposals and rank the proposals in accordance with the criteria for accessing the reserve. The Sub-Committee would take into consideration the recommendations of the working group when making a decision on how to distribute the funds.

17. Members of the working groups could include:

- a. [one][two] Sub-Committee members from recipient countries;
- b. [one][two] Sub-Committee members from contributor countries;
- c. two experts from the SREP roster of experts;
- d. one Sub-Committee observer representative from civil society;
- e. one Sub-Committee observer representative from the private sector ; and
- f. one Sub-Committee observer representative from indigenous peoples groups;

18. Virtual meetings and other administrative tasks to facilitate the work of the working group would be undertaken by the CIF Administrative Unit. If this option is selected by the Sub-Committee, an estimate of the costs will be prepared for approval of funding by the Sub-Committee.

17. To support the SREP's objective of providing scaled-up resources for renewable energy investments, it is proposed that no more than three projects and no more than one project per investment plan be funded from the reserve.

#### **IV. PREPARATION OF INVESTMENT PLANS FOR OTHER COUNTRIES**

18. The funding pledges to the SREP program has increased to USD 356 million as of June 30, 2011, as a result of additional pledges and exchange rate fluctuations<sup>2</sup>. Given the increase, there is over USD 50 million above the initial pilot country allocations at the upper limit (totaling USD 240 million) and the reserve (USD60 million). At least one contributor has indicated that its additional contribution is to be used to finance the participation of an additional pilot country. It is proposed that the CIF Administrative Unit prepare a proposal for consideration at the next Sub-Committee meeting as to how an additional country or countries could be identified from the "waiting list" and how funds could be allocated.

19. In the interim, the MDB Committee has proposed for consideration by the Sub-Committee that some of the additional funds be used to finance preparation grants to support the development of investment plans for the countries and region on the "waiting

---

<sup>2</sup> USD18 million in new pledges (Australia: USD10 million; Korea: USD3 million; and Spain: USD4 million), an additional pledge of USD27 from Norway, and fluctuations in the exchange rates accounted for the USD49 million increase.

It should be noted that, at the June 2011 Sub-Committee meeting, the representative from the Government of Australia informed the meeting of the country's contribution to SREP of 10 million Australian dollars, complementing its contributions to the CTF Trust Fund and to the SCF Trust Fund, and consistent with its commitment to supporting Least Developed Countries and Small Island States.

At the same meeting, the representative of the Government of Norway announced an additional contribution to SREP of 150 million Norwegian Kroner. She noted Norway's intention that the contribution is being made to allow an additional pilot to access SREP funding, and in particular, to provide increased opportunity for new innovative approaches, including results-based financing.

list” (Armenia, Liberia, Mongolia, Pacific regional program, Tanzania and Yemen)<sup>3</sup>. The purpose of the grants would be to support countries, in addition to the preparation of an investment plan, in developing quality investment portfolios by undertaking activities such as enhancing the capacity of national institutions for robust policy and priority setting and ensuring proposed investments are based on sound analytical work including proper resource assessments.

20. Requests for the country preparation grant would be submitted to the Sub-Committee for approval. The country preparation grant amount should not exceed USD1 million for a single country and USD 1.5 million for the regional program. .

21. Should the Sub-Committee agree to the above proposal, additional funding would also need to be made available to the MDBs through the CIF administrative budget to support MDB participation in country programming and the development of investment plans. It is estimated that an additional USD 2.86 million would be required.<sup>4</sup>. The Sub-Committee would need to request the SCF Trust Fund Committee to increase the FY 12 administrative budget by this amount should they agree that the proposal move forward this fiscal year.

22. The total estimated costs for moving forward with the preparation of investment plans and other preparatory activities in the six additional pilots is approximately USD 9.4 million.

23. Recalling its decision from the November 2010 meeting, the Sub-Committee would also need to provide guidance on which countries should be invited to participate in a Pacific regional program. At that meeting, the Sub-Committee considered the recommendations of the SREP Expert Group that a regional program in the South Pacific include five countries (Kiribati, Samoa, Solomon Islands, Tonga and Vanuatu). During the discussion, some members on the Sub-Committee suggested that it would be preferable to focus on a smaller number of countries that, for example, have lower levels of energy access. The Sub-Committee agreed that a decision on which countries should be invited to participate in a Pacific regional program should be determined in the future.

---

<sup>3</sup> At its meeting in November 2010, the Sub-Committee approved the following list; in alphabetical order of alternate pilots that could be considered should funding become available for additional pilot programs: Armenia; Liberia; Mongolia; Pacific regional program; Tanzania; Yemen. The Sub-Committee approved this list recognizing that it might be preferable to streamline the Pacific regional program. The Sub-Committee agreed that a decision on which countries should be invited to participate in a Pacific regional program should be determined in the future.

<sup>4</sup> SCF budget norm is USD388,000 for a country pilot and USD920,000 for a regional pilot.