Climate Investment Funds

SREP PIPELINE MANAGEMENT POLICY
COMMENTS AND RESPONSES
NETHERLANDS – CIF AU

I. Initial Comments From Netherland and CIF AU Responses (February 16, 2017)

Dear Mafalda, Zhihong,

In line with your request to receive any questions regarding the proposed SREP pipeline management policy timely, please find the following questions and comments on behalf of the Netherlands:

1. Paragraph 18 talks about funding for the new pilot countries to be dependent on the availability of funds. We would propose to add the notion that the SREP subcommittee has invited SREP pilot countries, in cooperation with the MDBs, to design and/or adapt investment plans and projects in a manner that enables access to other funding channels, in particular the GCF.

➔ **Agree and will do.**

2. Paragraph 24 talks about project preparation grants for projects, for which SREP would (to the best of our current knowledge) have no funding available. This implies that these projects would be developed with SREP support for project funding through other climate finance channels, in particular the GCF. We would like to get more information on what provisions have been taken to ensure that newly developed projects will indeed be taken up by the GCF? Will there be a formal understanding with the GCF on this proposed way of working? Can MDBs and CIFadmin make sure this would not raise false expectations towards the SREP program with recipient country governments?

➔ **We have been engaging the GCF Secretariat and have communicated to them the decisions of the CIF governing bodies, including those of the SREP Sub-Committee, regarding collaboration between the CIF and the GCF. In fact, at our invitation, two colleagues from the GCF Secretariat participated in the SREP Pilot Countries meeting in early February in Cambodia. We specifically discussed with the GCF colleagues, as well as the SREP pilot countries and MDBs, the Sub-Committee's request of designing the SREP investment plans and projects in such a way that could be considered for GCF financing. The GCF colleagues emphasized national NDA endorsement and submission of projects by GCF-accredited implementing entities; they were not in a position to elaborate or commit beyond their stated polices. The MDBs may have separate engagements with the GCF.**

In approving the PPGs for the new pilot countries when their investment plans are submitted/endorsed, the decisions by the SREP Sub-Committee can make it very clear that there are currently insufficient SREP resources to support the implementation of the projects, so as not to raise false expectations.

3. How do you assess the risk that adoption of a "sealed pipeline" approach will shift project development delays from step 5 (submission to SREP) to step 6 (submission to MDB board)?

➔ **There might be such a risk, but it should not be a significant risk, and there is already a measure in place to mitigate the risk. Deadlines have also been proposed for the timeframe between Sub-Committee approval and MDB board approval. For example, for public sector projects (more than 80% SREP projects fall under this category), a 9-month deadline has been proposed. The proposed deadline is actually more stringent than that established in the CTF pipeline management and cancellation policy (which is 12 months). We will**

continue to monitor closely the project development phases up to MDB board approval and report such information to the Sub-Committee in the semi-annual operational reports.

4. We understand from paragraph 33 suggests that over-programming of the SREP pipeline will go well beyond 30%, allowing all new projects from newly approved investment plans into the reserve pipeline. Is this correct? Why is this proposed, rather than maintaining the size-limit of the reserve pipeline to max. 30% of the sealed pipeline?

➔ **Both approaches were considered during discussions with the MDBs. Given the current status of the remaining countries in preparing their investment plan, there will likely be little "competition" between these countries and those with endorsed investment plans. Besides, having competition could significantly push all countries and MDBs to accelerate project development, which we have observed already recently. With the sealed pipeline approach, we effectively keep the sealed pipeline with no over-programming. The projects in the reserve pipeline could enter the (future) sealed pipeline when projects in the current sealed pipeline fail to be submitted before the deadline/expiration date, or when additional resources become available.**

5. The text in paragraph 35 on availability of non-grant resources until end of 2017 is confusing when compared to annex 2. It seems that all expected project submissions will have a mix of grant and non-grant resources. Is this correct? Would this mean that the SREP subcommittee would be able to only fund the non-grant part of such financing requests, or would this mean that additional provisions will be needed to handle a disconnect between need for grant and non-grant funding? In the latter case, we would prefer these provisions to be included in the pipeline management policy.

➔ **According to the current sealed pipeline (as of May 2017), there will be sufficient grant and non-grant resources to make funding commitment. Starting from June, there may not be grant resources left but there will still be non-grant resources. The MDB Committee will discuss the situation during the next pipeline update (around mid-April or earlier) regarding projects that will request grant resources or a combination of grant and non-grant resources when grant resources will have run out. There will likely be two sealed pipelines, one with respect to grant resources and another with respect to non-grant resources.**

6. Paragraph 39 and 40 talk about cancelling projects. What will happen to these projects: will they be included in the sealed pipeline, in the reserve pipeline, or excluded from both?

➔ **This will depend on the situation of the project (but they will unlikely be included in the sealed pipeline). We will try to exclude projects from the reserve pipeline when they are no longer under active development (and put them in the group of Not under Active Development). This will give a more clear and realistic picture to the Sub-Committee of the reserve pipeline.**

7. Can you clarify how the private sector set aside projects have been included in the sealed pipeline?

➔ **The PSSA projects are treated the same way as the projects from the investment plans.**

8. Can you provide a comparison of the share of (off-grid) energy access projects in the total current SREP pipeline and in the proposed sealed pipeline? Can you provide a similar comparison on the share of budget that would go to low income countries vs middle income countries?

➔ **Please find below a summary table. The share in number of off-grid/mini-grid projects is very similar between the total pipeline and the sealed pipeline, but in terms of funding amount, the share in the sealed pipeline is higher (45% vs. 31%). Typically, the off-grid/mini-grid projects are smaller investments than on-grid projects. This is reflected better in the total pipeline, where 52% of projects account for 33% of SREP funding. There are two large projects in the sealed pipeline that are shifting the funding balance toward access investments (compared to the entire pipeline): Rwanda (USD 50 million) and Liberia (USD 23.5 million). All SREP investments are in low-income countries, i.e., World Bank IDA-only countries or the equivalent of the Regional Development Banks.**

	Number of projects	**Funding**
Total pipeline energy access share (off-grid + mini-grid):	52.27%	31.01%
Sealed pipeline energy access share (off-grid + mini-grid):	50.00%	45.29%

9. Would it be correct to assume from the order in the reserve pipeline, that if the proposed PPGs would not be accepted by the subcommittee, the two first projects dealing with energy access in Bangladesh and Nicaragua would immediately be added to the sealed pipeline?

➔ **Should the proposed PPGs not be accepted, then USD 10 million would be available for funding projects. However, we cannot pinpoint which projects; this will depend on the updated pipeline and the agreed sealed pipeline.**

Thank you and best regards,

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II. Additional Comments From Netherland and CIF AU Responses (February 20, 2017)

Dear Zhihong,

Thank you for these answers. A few questions remain:

Ad 2. The GCF position is clear. It would be useful to also get the MDB perspective on this: are the MDBs ready to commit to prioritize projects from the new pilot countries (with not yet approved investment plans) to which the PPGs would be applied, in their own GCF pipeline?

➔ **We can discuss and confirm with the MDBs -- it seems that engagement of the MDBs with the GCF has been a rather complicated undertaking.**

Ad 4. The expectation that little competition is expected seems to be at odds with making PPGs available. Surely, application of PPGs is expected to add developed projects to the reserve pipeline? On the other hand, if the expectation is that little projects would come from the new IPs, why make PPGs available?

➔ **The MDBs do consider it important and helpful to make the PPGs available so as to incentivize the teams and countries to complete the development of the investment plans. The reason that little competition is expected (in the coming months) with the current pipeline is simply a matter of timing. The earliest that a new investment plan will be presented to the Sub-Committee for endorsement (mostly likely just one, from Benin) is June 2017. It will likely take at least a few months before a project is submitted, and by then SREP will likely have run out resources according to the current resource availability schedule.**

Ad 6. The answer is not clear. This point needs to be clarified in order for paragraph 39 and 40 to be meaningful.

➔ **Paras. 39 and 40 refer to two different scenarios. The first scenario refers to cancellation of funding of a project that fails to meet the deadline between Sub-Committee approval and MDB approval. The second scenario refers to cancellation of funding of a project that fails to be submitted/included for MDB board approval (as in the case of Tanzania). If no project substitution is proposed and approved by the Sub-Committee, then the project/funding will be removed/cancelled. However, should the Sub-Committee agree to substitution of a new project (e.g., through revision of the investment plan, as is common with the CTF), then it is conceivable that a new project will be included in the pipeline (whether in the sealed or the reserve pipeline will depend on its readiness and resource availability situation). Given the current resource situation, the Sub-Committee may consider not allowing any substitution projects for cancelled projects/funding.**

Ad 9. The paper presents a proposal to accept PPGs into the pipeline now. To have sufficient basis for a decision, we need to know what happens if the SREP subcommittee does not accept the proposal. Please clarify.

➔ **Should the Sub-Committee not accept the proposal of providing PPGs to the new investment plans (once endorsed), then the proposed PPG funding ($10 million) would be available for funding projects in the pipeline.**

We would very much appreciate your additional clarifications on these points.

Best regards, Frank