

CLIMATE INVESTMENT FUNDS

SREP/SC.4/5
October 22, 2010

Meeting of the SREP Sub-Committee
Washington, D.C.
November 8, 2010

PROPOSAL FOR THE ALLOCATION OF RESOURCES TO THE SREP PILOTS

Proposed Decision by SREP Sub-Committee

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

INTRODUCTION

1. It is expected that the SREP Sub-Committee, at its meeting in November 2010, will approved the SREP programming and financing modalities. Once such modalities are approved, the selected pilot countries and the MDBs will initiate activities to develop an investment plan.
2. Experience gained under the SCF Pilot Program for Climate Resilience shows that in developing an investment plan, it is useful to provide the pilot countries and MDBs with some measure of funding predictability to facilitate the elaboration of an investment plan. While it needs to be recognized that an ex-ante indication of resources should be not be considered as an entitlement to such funds, for planning purposes it is very helpful to indicate at least a range of resources that may be available to each pilot. This information helps the countries and MDBs to design an investment program suitable to the available resources.

PURPOSE AND PROGRAMMING OF SREP

3. The SREP aims to pilot and demonstrate, as a response to the challenges of climate change, the economic, social, and environmental viability of low carbon development pathways in the energy sector in low income countries by creating new economic opportunities and increasing energy access through the use of renewable energy.

PILOT COUNTRY SELECTION

4. Consistent with the procedures agreed in the SREP Design Document, the Sub-Committee selected six pilot countries based on the recommendations proposed by the SREP Expert Group. *The countries selected for SREP funding were: Ethiopia, Honduras, Kenya, Maldives, Mali and Nepal.* In selecting six pilot countries, the Sub-Committee kept in mind the current level of pledges to the SREP (USD 296 million) and the importance of ensuring that the scale of investment for each pilot is sufficient to have a significant impact in the pilot country.
5. In preparing its recommendations, the Expert Group reviewed the energy situation in each country that might facilitate adoption of renewable energy, including energy strategies, policies implemented, market conditions for supporting renewable energy, and the scalable impacts of possible SREP support.

OPTIONS FOR FINANCIAL ALLOCATION

6. This paper proposes two options for allocating SREP resources to the pilot programs. The Sub-Committee is invited to review the two options and to agree upon guidance that will provide an indication of available resources for each pilot. The first option proposes an indicative range of funding based on the availability of funds. Each

country would be able to prepare an investment plan that falls within the agreed range, although countries wishing to program in the upper levels of the range would be requested to provide stage 1 and stage 2 programming proposals. The ability to access resources for stage 2 would be dependent upon availability of resources and progress and results achieved under stage 1. The second option, based on an analysis of quantitative indexes, proposes two groupings of countries (those in the low range and those in the medium range), with each country in a group receiving the same indicative allocation.

Option 1: Indicative range of funding to be available for each pilot

7. Under this option, each pilot country would be invited to develop an investment plan in accordance with an agreed range of resources as outlined below. This option is built upon the following considerations:

- a) *incentive to move forward quickly and effectively*: resource availability can serve as a good incentive for country teams to move forward effectively and efficiently in programming these resources and to demonstrate how proposed investments can achieve the objectives of SREP;
- b) *potential to achieve results*: countries differ in their needs and ability to produce results, and such differences are expected to emerge during the programming of the investment plans,
- c) *minimum funding*: in order to initiate a process leading towards transformational change, a minimum level of funding is required for each pilot, and
- d) *predictability*: the commitment and timing of resources from the contributors is not yet fully determined, and it would be prudent to program the program's resources in stages.

8. It is proposed that each pilot program be requested to develop an investment plan within the range of USD 35 to 70 million.

9. Since all countries may program within the proposed range, this option provides equity and transparency to the allocation of resources, while recognizing that the actual commitment of funds will be based on the proposed program and, in particular, the potential of the program to produce results that are consistent with the objectives of the SREP.

10. Recognizing that an equitable division of SREP resources among the six pilots would necessitate a cap of USD 50 million per pilot, it is recommended that any country wishing to propose an investment plan that would be financed with SREP resources above that target should structure its investment plan in two stages. Stage 1 should indicate activities and results that could be achieved with SREP funding in the range of USD 35-50 million, and Stage 2 should indicate the additional activities and results that could be financed in the upper range of USD 50-70 million (an additional amount of SREP funding up to USD 20 million above Stage 1 financing). Criteria to assess progress and readiness for Stage 2 funding will be developed by the MDB Committee and proposed to the Sub-Committee for approval.

11. Stage 2 activities, while they may notionally be endorsed by the Sub-Committee when the investment plan is first submitted, would need to be reconfirmed by the Sub-Committee once the Sub-Committee has endorsed investment plans for all the pilots and progress can be shown by the pilot country in achieving results under Stage 1. It is also expected that no Stage 2 funding requests will be considered until after the Sub-Committee has endorsed State 1 requests for all pilots.

Option 2: Quantitative index

12. Taking into account the objectives of the SREP, as set for in the design document for the program and the criteria agreed in the SREP programming document, this option proposes that each pilot country be allocated an indicative amount of resources to assist it in developing an investment plan based on a quantitative index that predicts the country's ability to contribute to meeting the objectives of the program.

13. Under this option, it is proposed that the following indicators be used to predict a country's potential to achieve results under the program:

(i) *Size of the country.* Population and GDP at purchasing power parity (PPP) for comparison purposes that can reflect the differences in each country's size.

(ii) *Potential for achieving results.* This is composed of two indicators. The first is the World Bank's Country Policy and Institutional Assessment (CPIA) indicator that is the main criterion for allocating IDA resources. This evaluates economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. This indicator also reflects the effectiveness of the country for utilizing external funding.

The second is access to electricity, on the assumption there is greater potential for countries with significant pent-up demand to advance the objective of the SREP "to pilot and demonstrate the economic, social and environmental viability of low carbon development pathways in the energy sector by creating new economic opportunities and increasing energy access through the use of renewable energy" than those who have higher electricity access and would be more likely to utilize SREP funds to replace capacity currently generated with fossil fuels for capacity generated by renewable energy. In this regard, countries with lower access to electricity will be ranked higher.

(iii) *Development challenges.* This incorporates the Human Development Index (HDI) and GDP per capita measures. These indicators incorporate the challenges towards improving conditions in the low income countries.

14. The objective of applying these indicators is to have a relative comparison between countries that translates into groups for purposes of allocating SREP resources. The quantitative indicators are converted into ranges. Countries below one median value are

assigned a rating of 1 (Low), countries above median value are assigned a rating of 2 (Medium), and countries significantly above are assigned a rating of 3¹ (High).

15. Under this option, the potential of a pilot country to achieve results is correlated to the needs of the country in terms of size and population, capacity to absorb funding, and development conditions. However, this option does not value the mitigation potential for substitution of fossil fuels for renewable energy while implementing SREP funding. This variable can be measured upon evaluation of each investment plan. Table 1 summarizes the results of applying the above indicators.

Table 1: Country indicators

Country	Pop [M]	GDP PPP [\$M]	CPIA (IRAI)	Access	HDI 5	GPP PPP per capita [\$US]
Ethiopia	81	70,122	3.41	15.3	0.414	869
Honduras	7	28,776	3.54	70.3	0.732	3,932
Kenya	39	60,116	3.74	15	0.541	1,551
Maldives	0	1,707	3.37	100	0.771	5,597
Mali	13	14,344	3.66	17.52	0.371	1,129
Nepal	29	31,815	3.30	29.33	0.553	1,104

Table 2: Quantitative index for Option 2

Option 2	Size of the country		Potential for scaling-up RE		Development		Size of the country	Pot. for scale-up RE	Dev	Total	Possible allocation [\$m]
Country	Pop [M]	GDP PPP [\$M]	CPIA (IRAI)	Access	HDI	GPP PPP per capita [\$US]					
Ethiopia	3	3	1	2	2	3	3	1.5	2.5	2.33	65
Honduras	1	1	2	1	1	1	1	1.5	1	1.17	35
Kenya	3	2	2	2	2	1	2.5	2	1.5	2.00	65
Maldives	1	1	1	1	1	1	1	1	1	1.00	35
Mali	1	1	2	2	3	2	1	2	2.5	1.83	65
Nepal	2	2	1	1	2	2	2	1	2	1.67	35

16. As can be seen from the table, Ethiopia (2.33), Kenya (1.83) and Mali (1.83) fall within the *Medium range* while Nepal (1.67), Honduras (1.17) and Maldives (1) fall within the *Low range*. None of the countries scored on the High range following the methodology described above.

17. Using this information, the Sub-Committee might agreed to an equal indicative allocation of a base amount to all pilot countries with a supplemental amount for

¹ Significantly above was determined as two standard deviations from the medium

countries that are in the medium. Considering the goal of the SREP to “initiate a process leading towards transformation change” it is recommended that a minimum level of funding should not be lower than USD 35 million for all pilots. For those countries that are on the Medium range, an additional amount of USD 30 million may be considered when developing an investment plan.

PREFERENCE OF MDB COMMITTEE

18. The MDB Committee recommends Option 1, since it provides more flexibility in the programming process, allowing the countries to tailor SREP funding to their needs. It also allows the investment plans more scope to compete for resources based on the overall strengths of the program and the expected results from each of the programs and projects proposed.

19. The ability to request funding in two stages also allows the Sub-Committee to keep under review the availability of resources and their effective application. It allows each of the pilots to demonstrate its ability to achieve actual results that contribute to the success of the program.

SUMMARY

20. The Sub-Committee is invited to review these two options and to provide guidance to the pilot countries and the MDBs, for purposes of allowing the countries to move forward in preparing their SREP Investment Plans based on an indicative allocation of SREP resources that may be available to each pilot country. It is recognized that such allocations should only be seen as an indication of potential resources intended to guide planning. The level of allocations will need to be confirmed once an investment plan for each pilot is submitted to the Sub-Committee for endorsement. The endorsed investment plan will then serve as the basis for the further development of programs and projects under the investment plans. Actual commitment of funds will occur when the Sub-Committee approves SREP resources for program and project proposals submitted to it, bearing in mind the agreed criteria for capacity building and investments under the SREP.