

CLIMATE INVESTMENT FUNDS

SCF/TFC.11/3
April 21, 2015

Meeting of the SCF Trust Fund Committee
Washington D.C.
Tuesday, May 12, 2015

Agenda Item 3

**PROPOSAL FOR STRATEGIC CLIMATE FUND PRIVATE SECTOR FACILITY
(SUMMARY)**

PROPOSED DECISION

The PPCR Sub-Committee reviewed document SCF/TFC.11/3, *Proposal for Strategic Climate Fund Private Sector Facility* and notes with appreciation the work of the CIF Administrative Unit and the MDB Committee to develop the proposal.

The PPCR Sub-Committee agrees with the recommendation from ADB that the endorsed set-aside concept Cambodia: *Integrated Climate-resilient Rice Value Chain Community Project* (US\$5 million) will be removed from the pipeline.

The PPCR Sub-Committee approves the transfer of the freed-up resources resulting from the previous decision in the amount of US\$5 million (US\$3.2 million as grant contribution and US\$1.8 million as capital contribution) from the PPCR to the newly-established SCF Private Sector Facility, and requests the Trustee to complete the fund transfer when the account for the SCF Private Sector Facility is established.

Recognizing the importance of the private sector, and the importance of ensuring the higher level of capitalization of the SCF Private Sector Facility to achieve its intended purpose, the PPCR Sub-Committee agrees to transfer freed-up resources following: (a) removal of any of the endorsed project concept proposals from the PPCR set-aside pipeline, and (b) cancellation of any of the PPCR set-aside projects from the PPCR to the SCF Private Sector Facility.

Accordingly, the PPCR Sub-Committee requests the CIF Administrative Unit to work with the MDBs and the Trustee to propose a mechanism to facilitate the transfer of freed-up resources from the PPCR set -side pipeline to the SCF Private Sector Facility, for the approval of the PPCR Sub-Committee, prior to its inclusion in the design document of the SCF Private Sector Facility.

Introduction

1. Across the Climate Investment Funds (CIF), US\$2.4 billion (or about 30% of US\$8.1 billion total CIF funding) is designated for projects that aim to stimulate private sector participation. The CIF employs three financing vehicles: US\$1.7 billion allocated for private sector projects specified in CIF investment plans; US\$508.5 million allocated through the Clean Technology Fund (CTF) Dedicated Private Sector Programs (DPSP) designed to achieve scale and speed in response to market demand; and US\$200 million allocated through the private sector set-asides of the Strategic Climate Fund (SCF).

2. Acknowledging the importance of the private sector's role in achieving transformative change in the SCF's programs, the SCF's Sub-Committees agreed that FIP, PPCR and SREP resources should be set aside to provide funding to private sector operations to increase the number of high quality and innovative proposals through the private and public sector arms of the MDBs. The CIF Administrative Unit and the MDBs have jointly completed multiple calls for proposals under the existing set-aside mechanism in FY13 and FY14. Under these two rounds of set aside processes, there has been a total funding allocation of about US\$203 million, corresponding to a pipeline of 24 endorsed project concept proposals. An additional US\$50 to US\$80 million funding envelop was authorized by the PPCR Sub-Committee in November 2014 for a third PPCR set-aside round.

3. In addition to the "Review of the Private Sector Set-Asides of the Strategic Climate Fund," (requested by SCF Sub-Committees in 2013), the CIF Private Sector Working Group has been reviewing and monitoring results and exploring ways to capture the lessons learned from the SCF's set-aside processes and the CTF's DPSP. From the review, it has become apparent that barriers to scaling up private sector financing under the SCF programs still exist.

Funding Scale and Term

4. It is proposed to establish a SCF Private Sector Facility ("SCF PSF", or the "Facility") as a private sector dedicated sub-program of the SCF that addresses challenges faced under previous set-asides mechanism and that allow for greater scale, flexibility and market response. This will require establishing a new standalone sub-program under the SCF that will be dedicated to serve the mandate of the private sector under the FIP, PPCR and SREP. It will report to the SCF Trust Fund Committee. The Facility is proposed to start with a capitalization of about US\$100 million of investment for climate resilience, forestry and renewable energy.

5. The FIP, PPCR and SREP set-asides continue to co-exist, and any of the endorsed project concept proposals to date will be developed according to the existing procedures under respective SCF programs and their project proposals will be submitted to each SCF Sub-Committee for approval. Given the urgent need for a higher level of capitalization of the Facility, a mechanism for future fund transfer from the SCF is envisaged.

Objectives

6. The SCF Facility will promote innovative private sector investments and support private sector projects to meet the SCF objectives under the FIP, PPCR and SREP. Its objectives are to

provide: larger scale, improved SCF offering, improved market response, and improved scope for project development. A larger pool of countries and the feasibility of cross cutting access among the three existing SCF Programs will result in greater potential for robust deal flows.

Facility Structure and Funding Parameters

7. Funds available under the Facility will constitute a common co-mingled pool of funding available for private sector projects with the objectives consistent with the FIP, PPCR and SREP on an on-going “first come, first served” basis. Additional parameters are proposed to ensure relevance and balanced access to funding by each of the three programs.

Country Eligibility

8. Low income SCF countries can apply for funding aligned with the objectives of any of the SCF programs. Middle income countries, including upper middle income countries in SCF can apply for funding aligned with the programs they are already part of and to climate resilience and adaptation type of investments. CTF countries can apply for funding for climate resilience and adaptation type of investments. This broader range of eligible countries is essential to achieve a higher level of private sector investments as well as to test and demonstrate viability of investments from private sector in adaptation.

Governance and Governing Investment Criteria

9. The project proposals submitted for funding by the Facility will be reviewed and approved by the SCF Trust Fund Committee, preserving the integrity and independence of the investment criteria of each of the three SCF programs and requiring project proposals to be aligned with the investment criteria and financing modalities of the program where they thematically fall.

Value Proposition

10. There are numerous benefits associated with the proposed SCF Private Sector Facility, including the following: marketable approach to private investors and project developers, benefits of scale and wholesale approaches, demand driven approach to climate finance, harmonized SCF outreach and engagement strategy and cost effectiveness of business development, Higher SCF leverage ratio from private sector, efficiency gain.

Eligibility and Procedures

11. Eligibility criteria for all project proposals includes: meeting the objectives and satisfying the criteria of at least one of the three existing SCF programs; complying with the country’s national climate change plans and strategies, if available, or other equivalent national level plans or strategies; considering programmatic proposals, working through the MDBs private sector arms or through the MDBs public sector arms, which would benefit private sector recipients, and co-financing from MDBs. The proposal also outlines procedures to select project and program proposals to be funded under the SCF Private Sector Facility.