

# CLIMATE INVESTMENT FUNDS

December 19, 2014

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**PROPOSAL FOR ALLOCATING RESOURCES TO THE SREP NEW PILOT COUNTRIES**

## Proposed Decision

The SREP Sub-Committee, having reviewed the document, *Proposal for Allocating Resources to the SREP New Pilot Countries*, welcomes the proposal prepared by the CIF Administrative Unit in collaboration with the MDBs, and agrees to the following:

- a) The Sub-Committee agrees to endorse the investment plans from the 14 new pilot countries on a first-come, first-served basis taking into account the quality of the investment plans, regardless of funding availability under the SREP. Funding for the projects and programs proposed in the investment plans will be contingent upon the availability of funds under the SREP.
- b) For the purpose of pipeline entry of projects and programs identified in the endorsed investment plans from the new pilot countries, the Sub-Committee agrees that up to 30 percent over-programming continue to be applied to the SREP pipeline.
- c) For planning purposes, the Sub-Committee agrees to the following indicative allocations as upper limits for the new pilot countries:

Bangladesh:	USD 75 million
Madagascar:	USD 50 million
Rwanda:	USD 50 million
Malawi:	USD 50 million
Uganda:	USD 50 million
Benin:	USD 40 million
Ghana:	USD 40 million
Sierra Leone:	USD 40 million
Zambia:	USD 40 million
Cambodia:	USD 30 million
Haiti:	USD 30 million
Lesotho:	USD 30 million
Nicaragua:	USD 30 million
Kiribati:	USD 5 million

The Sub-Committee requests the CIF Administrative Unit, in collaboration with the MDBs, to monitor closely the SREP resource situation and the potential risk of over-programming and to provide updates to the SREP Sub-Committee in the semi-annual operational reports.

## I. INTRODUCTION

1. In June 2014, the SREP Sub-Committee approved the selection of 14 new pilot countries<sup>1</sup> and provision of up to USD 300,000 to each of the selected countries to develop a full investment plan. In November 2014, the Sub-Committee requested the CIF Administrative Unit, working with the MDBs, to prepare a proposal, for approval by mail, on options for the development of investment plans by all new countries, including indicative potential funding levels, as well as the implications for the overall funding situation, taking into account over-programming.

2. This proposal has been prepared in response to the Sub-Committee's request and in the context of announcements made at the Sub-Committee meeting in November 2014 by the United Kingdom and Norway of additional contributions to the SREP. The proposal takes into consideration the principles approved previously by the Sub-Committee for allocating SREP resources and the indicators that were applied for the allocation of resources to the SREP pilot countries.

### PROPOSED SCHEME FOR ALLOCATING RESOURCES TO NEW PILOT COUNTRIES

3. The indicators previously applied to guide the allocation of resources to the SREP pilot countries consisted of the following:

- a) *Size of the country*, composed of population and GDP at purchasing power parity (PPP), assuming that the larger the country, the higher potential it has to achieve a higher impact.
- b) *Potential for achieving results*, composed of the World Bank's Country Policy and Institutional Assessment (CPIA) and percentage of population with access to electricity. CPIA is the main criterion for allocating IDA resources (also referred to as the IDA Resource Allocation Index or IRAI), and is used to evaluate 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 access-to-electricity indicator assumes that there is greater potential for countries with low access and hence significant pent-up demand to advance the objectives of the SREP.
- c) *Development challenges*, composed of the Human Development Index (HDI) and the GDP (PPP) per capita measures, assuming that the greater the development challenges, the more potential it has toward improving its conditions.

4. Data for the above three sets of indicators for the 14 new pilot countries were collected and are presented in Table 1.

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<sup>1</sup> They are (in alphabetical order): Bangladesh, Benin, Cambodia, Ghana, Haiti, Kiribati, Lesotho, Madagascar, Malawi, Nicaragua, Rwanda, Sierra Leone, Uganda, and Zambia.

**Table 1: Indicators for the New Pilot Countries**

Country	Population	GDP – PPP (USD)	CPIA (IRAI)	Electricity access (%)	HDI	GDP per capita – PPP (USD)
1. Bangladesh	154,695,368	365,674,053,000	3.3	55%	0.56	2,364
2. Benin	10,050,702	16,950,977,640	3.5	28%	0.48	1,687
3. Cambodia	14,864,646	41,458,659,270	3.4	31%	0.58	2,789
4. Ghana	25,366,462	92,295,180,480	3.9	61%	0.57	3,638
5. Haiti	10,173,775	16,018,672,330	2.9	34%	0.47	1,575
6. Kiribati	100,786	178,545,011	3.0	56%	0.61	1,772
7. Lesotho	2,051,545	4,857,989,282	3.4	17%	0.49	2,368
8. Madagascar	22,293,914	30,716,722,280	3.2	14%	0.50	1,378
9. Malawi	15,906,483	11,754,181,520	3.3	9%	0.41	739
10. Nicaragua	5,991,733	25,489,390,750	3.7	74%	0.61	4,254
11. Rwanda	11,457,801	15,796,110,940	3.8	11%	0.51	1,379
12. Sierra Leone	5,978,727	9,482,000,811	3.3	12%	0.37	1,586
13. Uganda	36,345,860	48,490,435,490	3.8	15%	0.48	1,334
14. Zambia	14,075,099	42,085,303,400	3.5	19%	0.56	2,990

Source: World Bank, United Nations, and SREP Expert Group Report.

5. Similar to the range of resources allocated for the existing pilot countries, a range of USD 30-50 million is proposed for the new pilot countries, with two exceptions. As shown in Table 1, among the 14 countries, Bangladesh and Kiribati are two clear outliers in that Bangladesh’s population is more than 12 times the median, and its GDP is more than 17 times the median, of the group; conversely, Kiribati’s population and GDP are less than 1 percent of the medians of the group. For this reason, it is proposed that a higher level of indicative allocation of USD 75 million be agreed for Bangladesh and a lower level of indicative allocation of USD 5 million be agreed for Kiribati.

6. With the exclusion of Bangladesh and Kiribati, the rest of the 12 countries are scored for each of the indicators using a relative scoring method, with 1 being the highest score. The results are shown in Table 2.

**Table 2: Relative Scores**

Country	Population	GDP	CPIA	Electricity access	HDI	GDP per capita	Total
1. Bangladesh							
2. Benin	0.28	0.18	0.57	0.71	0.58	0.73	<b>3.04</b>
3. Cambodia	0.41	0.45	0.51	0.66	0.13	0.42	<b>2.57</b>
4. Ghana	0.70	1.00	1.00	0.20	0.17	0.18	<b>3.24</b>
5. Haiti	0.28	0.17	0.00	0.62	0.59	0.76	<b>2.43</b>
5. Kiribati							
7. Lesotho	0.06	0.05	0.53	0.88	0.53	0.54	<b>2.59</b>
8. Madagascar	0.61	0.33	0.33	0.92	0.48	0.82	<b>3.51</b>
9. Malawi	0.44	0.13	0.37	1.00	0.83	1.00	<b>3.77</b>
10. Nicaragua	0.16	0.28	0.78	0.00	0.00	0.00	<b>1.22</b>
11. Rwanda	0.32	0.17	0.92	0.97	0.45	0.82	<b>3.64</b>
12. Sierra Leone	0.16	0.10	0.41	0.95	1.00	0.76	<b>3.39</b>
13. Uganda	1.00	0.53	0.87	0.91	0.54	0.83	<b>4.67</b>
14. Zambia	0.39	0.46	0.56	0.85	0.22	0.36	<b>2.83</b>

7. The countries are then ranked according to the sum of the relative scores. It is proposed that aside from Bangladesh and Kiribati, the rest of the 12 countries are divided into three groups based on the total scores, with four countries in each group. Countries in the first group receive an indicative allocation of up to USD 50 million, countries in the second group receive an indicative allocation of up to USD 40 million, and countries in the third group receive an indicative allocation of up to USD 30 million. Table 3 presents the results of the proposed allocations for the 14 countries. The total amount of indicative allocations for the 14 SREP new pilot countries would amount to USD 560 million.

**Table 3: Proposed Allocations**

Country	Proposed Allocations (Million USD)
Bangladesh	75
Madagascar	50
Malawi	50
Rwanda	50
Uganda	50
Benin	40
Ghana	40
Sierra Leone	40
Zambia	40
Cambodia	30
Haiti	30
Lesotho	30
Nicaragua	30
Kiribati	5
<b>Total</b>	<b>560</b>

8. It should be noted that for the current SREP pilot countries, if a preparation grant is requested and approved for the development of the investment plan, this amount is deducted

from the total indicative allocation once the investment plan is endorsed. To maintain consistency, it is proposed that such practice will continue with the new pilot countries.

## **II. PROPOSED PROCESS FOR INVESTMENT PLAN ENDORSEMENT AND PIPELINE ENTRY**

### *Endorsement of Investment Plans*

9. It is proposed that the SREP Sub-Committee endorse investment plans from the new pilot countries on a first-come, first-served basis, taking into account the quality of the investment plans, regardless of funding availability under the SREP. The investment plans to be developed for the new pilot countries may consist of two phases, with phase I to be implemented with SREP funding up to the amount of the indicative allocation as proposed in Table 3 and phase II to be potentially financed by a variety of sources of climate finance.

### *Pipeline Entry*

10. The SREP has one pipeline that includes projects and programs from the investment plans and the private sector set-aside. For the current SREP pilot and reserve countries, Mongolia and Yemen have yet to submit their investment plans for endorsement. As previously agreed by the Sub-Committee, once the investment plans of the two countries have been submitted and endorsed, the projects and programs therein will be allowed to enter the SREP pipeline.

11. It is proposed that up to 30 percent over-programming continue to be applied to the SREP pipeline.<sup>2</sup> Once an investment plan from a new pilot country is endorsed, the projects and programs therein would be allowed to enter the SREP pipeline until the pipeline reaches 130 percent of the pledges and contributions available for programming, including the recently announced additional contributions. Given the current pipeline and expected resources availability, this would mean that approximately USD 359 million of projects and programs from new pilot countries could enter the pipeline (see Section III for calculations of over-programming.)

12. Assuming an average of USD 40 million of indicative allocation per investment plan, projects and programs from about nine new pilot countries could enter the SREP pipeline. It should be recognized that funding for the projects and programs proposed in the investment plans will be contingent upon the availability of funds.

13. In addition to the above proposal, the CIF Administrative Unit and the MDBs have considered two other options but ruled them out as less desirable. One option is to allow no additional over-programming so that only USD 300 million of projects and programs from the new pilot countries would be allowed in the pipeline. This would reduce to the number of new pilot countries that could receive funding for the implementation of their investment plans.

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<sup>2</sup> In October 2013, the SREP Sub-Committee agreed, among other things, that an over-programming of up to 30 percent may be applied to the SREP.

14. Another option is to allow projects and programs from all pilot countries to enter the pipeline but reduce proportionately the indicative allocation for all the new countries up to the over-programming level. The advantage of this option is that all new pilot countries would have an opportunity to benefit immediately from the SREP and access funding for the implementation of their investment plans. The disadvantage is that there may be delays in implementing the program if not all new countries would submit their investment plans for endorsement in a timely manner and resources indicatively allocated to countries which may move more slowly to implementation. In addition, a smaller resource envelope would also make it be more difficult to involve the relevant MDBs in developing sizable projects and programs with significant impacts.

### **III. IMPLICATIONS FOR OVER-PROGRAMMING**

15. The total indicative allocations to projects and programs under the investment plans of the current SREP countries (including Mongolia and Yemen) and the private sector set-aside are approximately USD 577 million, of which USD 155 million has been approved by the Sub-Committee, leaving to USD 422 million in the pipeline (or to be included in the pipeline in the case of Mongolia and Yemen).

16. The total pledges and contributions, including the expected additional contributions announced in November 2014, currently stand at approximately USD 816 million. With the current funding approvals (USD 155 million) and the expected commitments to MDB programming budgets, administrative costs, and Trustee reserves (totaling about USD 60 million), the amount of available resources to commit to projects and programs are approximately USD 601 million ( $816-155-60=601$ ). With 30 percent over-programming, about USD 781 million of projects and programs could remain or enter the pipeline ( $601 \times 1.3 \approx 781$ ). The headroom in the pipeline for the new pilot countries is therefore about USD 359 million ( $781-422=359$ ).

17. The CIF Administrative Unit in collaboration with the MDBs will monitor closely the SREP resource situation as well as the potential risk of over-programming, and will provide updates to the SREP Sub-Committee in the semi-annual operational reports.

### **IV. ALLOCATION OF GRANT AND NON-GRANT RESOURCES**

18. Regarding the allocation of grant and no-grant resources to the SREP pilot countries, the SREP Sub-Committee agreed in November 2011 that for countries with a low risk of debt distress, no more than 70 percent of the indicative funding agreed to by the Sub-Committee should be drawn from the grant contributions; for pilot countries with moderate or high risks of debt distress, all indicative funding agreed to by the Sub-Committee can be drawn from the grant contributions, except for private sector projects which could be drawn from the capital contributions since they do not increase the sovereign debt of the country. These guidelines were based on the available resources and the expected funding commitments at that time.

19. For the 14 new pilot countries, information on the current level of debt distress is provided in Table 4 below.

**Table 4: Level of Debt Distress**

<b>Country</b>	<b>Level of Debt Distress</b>
Bangladesh	Low
Madagascar	Low
Malawi	Moderate
Rwanda	Low
Uganda	Low
Benin	Low
Ghana	Moderate
Sierra Leone	Moderate
Zambia	Low
Cambodia	Low
Haiti	High
Lesotho	Moderate
Nicaragua	Moderate
Kiribati	High

20. Given the expected grant and capital contributions of the additional contributions to the SREP, there may be demand for higher level of grant resources than currently available. It is therefore proposed that the existing guidelines regarding distribution of grants and capital resources be revisited, and modified as appropriate, taking into account the status of country programming and the pipeline, the level of debt distress of the pilot countries, and the availability of grant and non-grant resources. As a general principle for the purpose of programming, the amount of grants requested by the projects and programs in the pipeline along with other funding commitments requiring grants should match the availability of grant contributions. The new pilot countries are encouraged to engage the private sector during the development of their investment plans and to allocate, as appropriate, resources to projects and programs for implementation by the private sector.