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A REVIEW OF THE PRIVATE SECTOR SET-ASIDES OF THE STRATEGIC CLIMATE FUND

A review of the private sector set-asides of the Strategic Climate Fund

Report prepared for CIF Administrative Unit

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Executive Summary

The private sector set-asides of the Strategic Climate Fund (SCF) are an ambitious mechanism of the Climate Investment Funds (CIF) designed to competitively allocate concessional funding so as to increase private sector investment in each program of the SCF. They were created in 2012-2013 and have endorsed project concepts that will require around $200 million of concessional financing, increasing the number of high quality, innovative private sector projects within the Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR) and Scaling-Up Renewable Energy Program in Low-Income Countries (SREP). The first round was completed in 2013 for each program. The PPCR and SREP had funds remaining and, in January 2014, announced a second round of competition for the remaining funding, which was completed in June 2014.

The set-asides arose in response to recognition of the challenges in delivering private sector projects in the SCF through the investment plan (IP) process. Private sector investment is crucial in achieving transformative change in each of the SCF programs, through implementation of innovative technologies, innovative business models and sustainable supply chains. The expectation that timelines for disbursement in private sector projects will be short is also attractive. However, many pilot countries, have been reluctant to allocate SCF resources to private sector projects. This is largely because the demand for public sector climate investments outweighs the available SCF resources. In many cases, the challenging investment climate also makes it difficult to both identify and implement private sector projects. These challenges were highlighted in a 2011 report by the multilateral development banks (MDBs) that implement CIF financing and are corroborated by the finding that, as of September 2014, less than 5 per cent of the funding approved by MDBs in each of the three programs has been for private sector projects (Climate Investment Funds, 2011).

The set-asides were designed to overcome a number of these strategic challenges, through competitive allocation of concessional funding to innovative private sector projects. They provided a funding window exclusively to support private sector investment in line with the objectives of the SCF programs and the existing investment plan process in the pilot country, directly (through the private sector arms of the MDBs) or indirectly (through the public sector arms of the MDBs). The Sub-Committees of the SCF also specified that the mechanism should support activities that were achieving results on the ground, and projects that were innovative in terms of approaches, business models, technologies, financing, or creating new markets or partnerships. Much of the design of the set-asides was common to all three programs in the SCF, but there were also subtle but important differences across each program.

This report provides a review of the experience of the set-asides to date and lessons that can be learned, using feedback from a wide variety of stakeholders. The review conducted more than 40 in-depth stakeholder interviews, including with MDB focal points for the three targeted programs under the SCF, project and program developers, MDB task team leaders (TTLs), members of the set-asides expert groups (who were responsible for providing a technical evaluation of proposed project concepts), Sub-Committees and CIF Administrative Unit (AU). An online questionnaire was also used to elicit feedback using questions developed with feedback from the CIF AU, though the response rate to this survey was low. The review focuses mainly on the set-asides' processes for identifying and selecting projects as the set-asides were created less than two years ago and results on the ground are not yet available. This report is intended to both inform the possible future design of funding of private sector engagement under the CIF as well as the broader climate finance architecture.

Successes and Shortcomings

There has been some success in meeting the strategic objectives of the set-asides, in particular a doubling of the value and number of private sector projects in the SCF. As of September 2014, across all three programs (FIP, PPCR and SREP), 24 concepts have been endorsed for around $200 million of concessional finance. By number and total value of investments, these projects now represent approximately 50 percent of private sector projects in each of the programs in the SCF – representing a doubling of expected private sector investment in the SCF. Expected leverage rates are significantly higher in set-aside projects than those in the FIP and SREP investment plans, with the rates roughly similar in the PPCR.

A number of set-aside projects are considered to be particularly innovative and of high quality. PPCR project concepts for Tajikistan, SREP project concepts for Kenya and a FIP project concept for Mexico have variously been praised, especially by expert group members, for innovation in: implementation, financing, business models, creating new markets, and applying existing instruments in new contexts. MDBs report that they have been able to make progress in developing a number of projects that would otherwise have remained stalled.

The most significant shortcomings of the set-asides have been the overall number of project concepts submitted to the set-asides and a perception that they have, as a whole, been less innovative than expected. A number of stakeholders - especially expert groups, Sub-Committee members and the CIF AU - were disappointed with the number of submissions to the set-asides, and were particularly concerned that the number and value of project concepts submitted fell significantly in the second round. This has been most acute in the SREP, where only three project concepts were submitted in the second round, all of which were endorsed. Although a number of individual project concepts have been high quality and innovative, the overall lack of competition for set-aside funding may have reduced incentives to develop truly innovative projects, and expert group members suggest that often those project concepts that were selected were the only ones that were viable. This lack of innovation was perceived to be most pronounced in the FIP, although, even here, there were individual project concepts brought forward that are considered to be innovative.

Challenges within the set-aside process

There have been challenges integrating the set-asides into MDB processes. The uncertainty over whether project concepts would be approved and the limited time available to develop the concepts has been a constraint on quantity, quality and innovation. The incentives for MDBs to engage in the set-asides can be weak: projects are often small in terms of resource needs relative to others in some MDBs' portfolios yet transaction costs are still significant and approval processes lengthy.

Geographic restrictions on the countries eligible to apply for set-aside resources have limited the number of high quality project concepts submitted and accepted. Although these restrictions were chosen deliberately to enhance integration of set-aside projects with existing investment plans, these restrictions compound other challenges, making engagement and submission of high quality project concepts less likely.

The terms on which resources are available, and uncertainty over those terms, has also limited the number and diversity of concepts submitted. There was confusion among project developers, pilot country representatives and some MDBs, about whether grant resources and/or local currency loans are available to support projects under the set-asides. Grant resources were available under the SREP set-aside, but not in the PPCR or FIP, which may have reduced the scope of project concepts that could be brought forward under these two set-asides. Local-currency loans were available in all of the set-asides on a project-by-project basis but this was not widely understood, also reducing the attractiveness of the set-asides.

A lack of awareness and, in some cases, capacity of potential project developers has also proved challenging. Some potential project developers have insufficient knowledge of the specific processes and procedures of the set-asides, and/or lack the capacities needed to engage effectively.

Strategic options for addressing these challenges

There are both structural and incremental options for changing the set-aside process. The structural reforms would require a fundamental re-organization of the set-asides and in some cases would not be possible within the current CIF governing structure. There are also more incremental changes that can be made within the existing structure to help address the challenges identified.

The structural reforms try to resolve the tension between the intention that the set-asides allocate resources on a competitive basis and the current institutional set-up of the CIF. The competitive process of the set-asides was expected to increase the number of high quality, innovative projects being developed. However, with only a small number of MDBs competing for concessional funding, in conjunction with the other challenges noted above, the structural set up is not conducive to vigorous competition.

There appear to be three main models available to try and resolve this tension, though these would require significant changes to the structure of the set-asides:

– **Allow a broader range of organizations to submit project concepts under the set-asides to lower barriers to entry and enhance competition**. For example, national and other regional development banks, social entrepreneurs and impact investors might be allowed to support projects. Alternatively, private sector project developers might be allowed to submit concepts directly to the process. This structure would likely require a significant increase in the role of the expert groups, and would not be possible in the CIF structure. It also risks jeopardizing the lean administrative structure that characterises the CIF. However, it is a model that could be pursued elsewhere in the climate finance architecture.

– **Remove the objective for competitive allocation, and develop a more programmatic approach, with resources allocated collaboratively by MDBs.** This approach would more closely resemble the Dedicated Private Sector Programs (DPSP) of the Clean Technology Fund (CTF) with MDBs working together to identify private sector funding opportunities, perhaps within globally identified themes. As with the DPSP, it is unlikely that there would be a need for an expert group under this model. Most MDBs consider that this model would be more closely aligned with their internal business development activities, but it would reduce efforts to stimulate innovation by competition across MDBs.

– **A compromise approach would promote a less direct form of competition through an open window with annual funding envelopes and quarterly or semi-annual calls for proposals.** This might improve engagement of MDBs, allowing them to submit project concepts as they mature. However it would require significant changes to the role and processes of the expert groups, and could lead to procedural challenges, for example in comparing project concepts at different times and the possibility of running out of funding. This approach could be accompanied by a requirement for MDBs and pilot countries to identify country-specific themes which project concepts would be consistent with, though these restrictions may make the set-asides less attractive for MDBs when considering engagement in the set-asides.

There are also a number of promising incremental measures that can be taken within the existing set-asides structure. These changes address the four main challenges to the set-asides, and could be implemented in a relatively short timeframe.

– ***Measure 1: Provide tiered grant funding for MDBs to develop proposals.*** This would aim to improve incentives and reduce the risk for MDBs to develop proposals. Tiered grant funding might provide more structured support for project developers, though more stages of funding would likely require a significantly expanded role for the expert groups, increasing the logistical costs of the process.
– ***Measure 2: Regularize the timing of the call and provide sufficient time to respond.*** A number of stakeholders, particularly MDBs and project developers, noted that this could improve MDB engagement and smooth the process of project development and submission.
– ***Measure 3: Place less emphasis on MDB co-finance in evaluating and selecting concepts.*** Although there are significant benefits of securing MDB co-financing, less emphasis on the amount of co-financing available may lead to greater innovation and additionality of submitted concepts.
– ***Measure 4: Allow expansion to other SCF and/or CIF countries on a program-by-program basis.*** This would likely increase the number of high quality projects submitted, and make regional projects, such as risk insurance schemes, more feasible. Some stakeholders, especially pilot country representatives, considered that this would weaken the goals and transformative potential of the set-asides due to a concern that the resulting projects would not necessarily be consistent with the commonly agreed objectives of a relevant investment plan in a particular pilot country.
– ***Measure 5: Clarify and increase the availability of grant funding and local currency loans and identify the types of projects that will be prioritized for its use.*** Expanding the use of grant resources might be particularly valuable in enhancing private sector capacity and improving enabling environments in the FIP and PPCR.
– ***Measure 6: Develop a strategic plan for enhanced outreach, with a coordinating role for the CIF AU.*** The majority of stakeholders – including expert group members and pilot country representatives - believe that improved outreach for (potential) project developers would help

increase the number of high quality proposals. Different actors have various strengths and weaknesses in conducting outreach, and it is most likely to be effective if these actors collaborate within a single coherent strategic plan led by the CIF AU.

– ***Measure 7: Establish a pool of consultants to facilitate liaison between MDBs and project sponsors in concept development.*** This would aim to alleviate the challenge of project developers' poor understanding of the set-asides requirements and capacity shortages.

Reforming the processes of the set-asides

The expert groups are viewed as effective by the majority of stakeholders across the CIF community, though a number of concerns and challenges were raised. The primary role of the four members of each expert group (EG) has been to review and assess proposals on a technical basis, to facilitate efficient decision-making by the relevant Sub-Committee. Most stakeholders, from a range of different perspectives, felt that they carried out this role effectively. However, some concerns, especially by MDBs and project developers, were raised about the revisions made to the assessment criteria in round one, particularly in the SREP, though these concerns are largely considered to be resolved. In addition, there have been difficulties in reaching a common understanding between expert group members and MDBs regarding the level of detail that should be expected in the project concept notes that the expert groups review. There were also concerns raised by a small minority of stakeholders - including MDBs, project developers and other expert group members - about the knowledge and appropriateness of some expert group members.

Amendments to the role of the expert group would improve decision-making processes. A firm, well-known and transparent timetable for interaction between MDBs and expert groups would aid effective information exchange and communication. This could include time for desk review of the submitted concepts by the expert groups, and for MDBs to review and respond to questions on project concepts as well as a draft of the expert group report before its submission to the Sub-Committee. Firm criteria for selecting expert group members and/or a modest increase in the number of experts for each program, from the current four per group to around five or six, may also help to alleviate challenges relating to the knowledge, capacity and experiences of the expert group.

Stakeholders from all perspectives were broadly content with the role of the Sub-Committees in the processes of the set-asides. They consider that each Sub-Committee showed the right level of engagement and performed their primary role effectively: to review and endorse project concepts using information from expert groups.

Across a broad range of stakeholders, the CIF Administrative Unit is generally perceived to have done a good job at facilitating implementation of the set-asides processes, though some amendments may be warranted. Both MDBs and project developers thought that the CIF AU could increase clarity to private sector project developers over the role that MDBs would play in the process, and what is expected of a concept note. Some PPCR Sub-Committee representatives also consider that greater communication from the CIF AU through outreach on what constitutes a private sector adaptation/climate resilience project would also be valuable.

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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CIF	Climate Investment Funds
CTF	Clean Technology Fund
DPSP	Dedicated Private Sector Programs
EBRD	European Bank for Reconstruction and Development
FIP	Forest Investment Program
FY	financial year
GCF	Green Climate Fund
GEF	Global Environmental Facility
GHG	greenhouse gas
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
MDB	multilateral development bank
NGO	non-governmental organization
PPCR	Pilot Program for Climate Resilience
PPP	public-private partnership
SCF	Strategic Climate Fund
SREP	Scaling Up Renewable Energy in Low Income Countries Program
WBG	World Bank Group

1 Introduction

1.1 Objective of this report

1. **The set-asides of the Strategic Climate Fund (SCF) were designed to increase the Fund's support for private sector investment in low-carbon development and climate resilience activities in pilot countries of the SCF programs.** The set-asides were created in 2012-2013 to increase the number of high quality, innovative private sector projects within the SCF (the Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR) and Scaling-Up Renewable Energy Program (SREP)). They provide a funding window explicitly to support, directly or indirectly, private sector investment in line with the objectives of these programs, and in a manner that was intended to further advance the objectives of the investment plan (IP) in the relevant CIF countries.

2. **This report provides a review of the experience of the set-asides to date and lessons that can be learned.** In Spring 2014 the SCF Trust Fund Committee requested a review of the set-asides to date, 'to analyze and share lessons learned on the private sector set-asides with the respective Sub-Committees and external stakeholders with the view to generate lessons from engaging the private sector in the CIF and recommendations for future funding of private sector engagement under the CIF.'[1] The CIF Administrative Unit (CIF AU) commissioned *Vivid Economics* to undertake this study. The Appendix provides the terms of reference for this review.

3. **The relatively short period of time since the creation of the set-asides dictates the nature of this review.** The structure and procedures of the set-aside were agreed less than two years ago. This means that the impact of the set-asides in terms of results on the ground cannot yet be established. Indeed, with a few exceptions, most projects that have been discussed in the set-asides have not yet been brought forward for Sub-Committee funding or MDB board approval. The review therefore focuses on lessons on how the set-asides sought to identify and support project concepts consistent with its objectives, but a further review may be needed when greater on-the-ground experience becomes available.

1.2 Methodology of the review

4. **Initial evaluation of the set-asides involved a review of relevant literature and the development, in collaboration with the CIF AU, of the key questions to discuss with stakeholders through interviews and an online survey.** The literature reviewed included the procedures and timelines for accessing resources, project concept notes, expert group reports, and Sub-Committee decisions. In collaboration with the CIF AU, and using the questions provided in the terms of reference, *Vivid*

[1] *Lessons Learned from the Private Sector Set-Asides under the Targeted Programs of the Strategic Climate Fund*, Terms of Reference

Economics developed a set of questions to be discussed with stakeholders, through in-depth interviews and an online survey. These questions are included in the Appendix.

5. **Almost 50 stakeholders have been interviewed during the review.** These include project developers, MDB focal points for the CIF, MDB task team leaders and members of the expert groups, CIF AU and Sub-Committees. These interviews were semi-structured: while the set of questions developed with the CIF AU helped direct the conversations, they were broad in scope and guided by the interviewees' personal experiences and views. Vivid Economics encouraged a frank and open discussion, with responses remaining private throughout the review. Many of these interviews were conducted by phone, with a few conducted in person where possible. The interviewees include:
   - 9 members of expert groups
   - 10 CIF focal points within the MDBs
   - 9 project developers (including those that were not supported by MDBs as well as those that were supported by MDBs and either did or did not have their project conceptsendorsed)
   - 4 task team leaders (TTLs) within the MDBs
   - 12 Sub-Committee members (from both contributor countries and pilot countries)
   - 3 members of the CIF AU

Box 1. **The questionnaire sought to understand stakeholder opinions on the current set-aside process and options for change**

The questionnaire asked respondents to rank existing aspects of the set-asides and options for reforming them, and average scores will be reported throughout the review. Respondents gave existing aspects of the set-asides and results so far an integer score on a scale of 1 to 6, with 1 being the lowest ranking (e.g. very unsuccessful) and 6 the highest (e.g. very successful). To allow respondents to identify where they considered a modification would have a detrimental impact on the set-asides, two sets of options were ranked on a -3 (detrimental change) to 3 (significant improvement) scale:

- strategic modifications to increase the number of high quality proposals; and
- modifications to the process of how the expert groups deliberate on concept notes.

Respondents were provided space to explain their scores and provide other comments.

6. ***Vivid Economics* also received 23 responses to an online questionnaire.** To support the interview process, an online questionnaire was also developed (see Box 1). The questionnaire was sent to 139 people across the CIF community[2] of whom 23 replied (17 per cent response rate). Nine of the questionnaire responders were also interviewed in depth. The number of responses from the

[2] The questionnaire was sent to 11 members of the expert groups, 31 members of the MDBs (including focal points), 4 project developers, 5 MDB task team leaders, 33 Sub-Committee members, 8 members of the CIF AU and 47 pilot country focal points. Responses were received from 5 expert group members, 3 MDB focal points, 2 project developers, 5 MDB task team leaders, 3 Sub-Committee members, 2 members of the CIF AU, 2 representatives of pilot countries and one private sector observer.

questionnaire was lower than hoped for, making it inappropriate to place much emphasis on the questionnaire responses, especially to discern patterns across different programs or between different types of respondents. However, in many cases the questionnaire responses were broadly reflective of the views expressed in the expert interviews. Therefore, throughout the review we note where the questionnaire responses corroborate findings from the expert interviews, and other analysis.

7. **The initial findings were presented and discussed with a group of MDB representatives.** The MDB representatives provided comments to a presentation summarizing the key findings of the analysis. Where appropriate, these comments are incorporated.

2 The strategic rationale and design of the set-asides

2.1 Rationale for the creation of the set-asides

8. **There are a number of challenges in delivering innovative private sector projects through the investment plan process.** In the FIP, PPCR and SREP, recipient countries are sometimes less willing to allocate resources to private sector projects than public sector ones. A 2011 report by the MDBs noted that ‘a viewpoint has often been expressed that CIF fund allocation is a sort of ‘zero sum game’, whereby use of funds for private sector projects amounts to a loss by the public sector’ (Climate Investment Funds, 2011). In some cases capacity weaknesses, both of the private sector and the governments administering the investment plans, have also held back the identification and development of private sector projects within the investment plan process (Vivid Economics, 2014).

9. **The investment climate needed to underpin robust private sector climate investment is also challenging in many pilot countries.** Stakeholder interviews with MDB representatives and expert group members, as well as the semi-annual operational reports of each of the programs, identify some of the challenges in planning and implementing private sector projects highlighting, for instance, that:
   - in the FIP, demonstrating compliance with safeguards policies in private sector projects can be costly and time-consuming;
   - in the PPCR there are often low levels of awareness of climate risk and adaptation opportunities;
   - in the SREP the policy and regulatory environment to support private sector renewables investment is often lacking.

10. **Consequently, private sector projects represent a relatively small proportion of the portfolio of projects at various stages of the investment plan portfolio in each SCF program.** Table 1 illustrates that, by project number, in each program less than one in four projects is a private sector project. By project value, the proportions are even smaller. In each of the three programs less than five per cent of project funding that has been approved by MDBs is for private sector projects.

Table 1. **Private sector projects form a small proportion of each program's investment plan portfolio**

Program	Proportion of private sector projects in investment plan portfolio		achieved Sub-Committee funding approval		achieved MDB approval	
	By number of projects	By value of projects	By number of projects	By value of projects	By number of projects	By value of projects
FIP	16.7%	10.9%	15.4%	2.5%	16.7%	3.1%
PPCR	11.9%	7.1%	10.5%	3.4%	8.3%	3.0%
SREP	25.0%	16.0%	27.3%	19.2%	14.3%	4.7%

Note: Project data up to date as of 5th September 2014

Source: Vivid Economics analysis of CIF AU data

11. **The set-asides were intended to overcome this problem, and stimulate investments with the private sector in the SCF.** A 2011 CIF learning paper recommended that the 'fund design should explicitly allocate resources to private sector interventions', particularly to overcome incentives that can discourage allocation of resources to the private sector through the investment plan process (Climate Investment Funds, 2011).

12. **The set-asides were also intended to stimulate innovation**. At the time of this recommendation, the SCF and its targeted programs were already considering the concept of a reserve that could be used to incentivize innovative approaches. The set-asides were incorporated into this discussion; and reflected in the views of each of the Sub-Committees who expressed a preference that the set-asides should support activities that were achieving clear results on the ground, and those that were innovative with respect to implementation approaches, technology, financing, partnerships and market creation.

2.2 The design of the set-asides

13. **More than $200m of concessional finance was made available through a competitive process in each of the three programs.** Projects that further contributed to the objectives of a country's investment plan were to be funded through a competitive process held separately for each program, with available concessional funds totaling:
    - $56m for the Forest Investment Program (FIP)
    - $70m for the Pilot Program for Climate Resilience (PPCR)
    - $90m for Scaling-up Renewable Energy Program (SREP)

2.2.1 Features common across all three programs

14. **Eligibility requirements across the three programs are broadly similar:**

- projects must be active in countries with an endorsed investment plan;
- projects must be implemented by private sector clients working through the MDB private sector arms or by public sector entities working through the MDB public sector arms (so as to achieve, indirectly, an increase in private sector investment).

15. **The procedures for submission and selection of projects were also similar across programs:**

- MDBs submitted project concept notes using a template prepared by the CIF Administrative Unit;
- each program established an expert group to review concept proposals against a set of criteria, with four members selected by the MDB Committee and approved by the relevant Sub-Committee (two members proposed by contributor countries and two by pilot countries);
- the criteria used to review concept notes initially included six general criteria common across all programs, with two to four additional criteria specific to each program (see Box 2 for a discussion of the criteria and how they evolved in each of the programs);
- the expert group reviewed each of the concept notes and compiled a report detailing their recommendations for submission to the relevant Sub-Committee;
- the relevant Sub-Committee decided which project concepts should be endorsed for further development; and
- timelines for submission and review, and the roles within the process, were similar across programs.

2.2.2 Differences across the programs

16. **There were some subtle but important differences in the design of the set-aside of each program.**

- In recognition of the challenges that poor enabling environments created for private sector adaptation investments in PPCR countries, projects that work on improving the enabling environment for private sector investments were included in the PPCR. In SREP and FIP, public sector operations that channeled funds to private sector clients were eligible for funding.
- In the PPCR and SREP, a minimum percentage of the funding was to be allocated directly to private sector clients working through MDB private sector arms.
- In the PPCR and FIP, projects were restricted to receive between \$3m and \$15m of concessional funds (one of the selected projects in each round of SREP requested funding greater than \$15m). Initially, in SREP, a country's funding could not exceed a third of total resources.

17. **Further differences have developed as the set-aside process has been put into practice:**

- results have differed across the programs (more details in section 3), with PPCR and SREP invited to conduct a second round, but the FIP limited to one round;
- in the process of their deliberations during Round 1 each of the expert groups made a number of changes to the criteria and associated weightings, most notably in the SREP set-aside (see Box 2);
- following the criteria changes in Round 1, a number of changes to the proposed criteria and weighting for Round 2 in both the PPCR and SREP (see Box 2) as well as some procedural changes for PPCR were approved by the relevant sub-committees.

Box 2. **The criteria used to assess concept notes evolved in each of the programs**

The expert groups were asked to rank project concepts according to a range of criteria. These initially included six criteria common across all programs, each scored out of five points:

- alignment with objectives of the country IP;
- consistency with FIP/PPCR/SREP objectives, principles and investment criteria;
- level of innovation;
- projected leverage;
- implementation feasibility/rate of funding approval;
- timely delivery of projects under endorsed IP.

Each program also included two to four criteria specific to that program.

During Round 1 each of the expert groups made a number of changes to the criteria and associated weightings. These changes were intended to more accurately reflect the projects that the experts deemed to be of highest quality, and were most significant in the SREP set-aside.

- The FIP expert group used a scorecard out of 50 points to rank the proposals. They dropped explicit scoring of timely delivery of investment plan projects from the suggested criteria, with the final scorecard having ten criteria in four themes: mitigation and innovation (10 points), development co-benefits (15), economic viability (15) and FIP alignment (10).
- The PPCR expert group removed the score for rate of funding approval, and introduced a strength of implementation structure, alongside its specific criteria
- The SREP expert group used alignment with country IPs and SREP objectives as binary qualifying criteria; they replaced scores on increased access to energy (a program-specific criterion) and timely delivery of projects with scores on project readiness and sustainability[3].

These changes were reflected in the way in which projects in Round 2 of the PPCR and SREP were assessed.

- The PPCR expert group recommended the introduction of weighting, and this was introduced for the second round: advancement of SPCR objectives (15 per cent), innovation (25 per cent), readiness (20 per cent), benefits to vulnerable groups (20 per cent), sustainability of intended results (20 per cent).
- Some modifications to the criteria in the SREP set-aside made by the expert group were retained in the second round, with specific weighting suggested: innovation (25 per cent), projected leverage ratio (15 per cent), increased energy supply and access (30 per cent), readiness (15 per cent) and commercial sustainability (15 per cent).

[3] In the first round of the SREP set-aside, the expert group ranked project concepts both according to the initial criteria and according to the criteria that they felt were more appropriate. The projects endorsed by the Sub-Committee were those that scored well on both sets of criteria.

3 Successes of the set-asides

3.1 Successes across all three programs

18. **The set-asides have increased the value and number of private sector projects within the SCF.** As of end September 2014, 24 concepts have been endorsed for around $200m of concessional finance leading to an appreciable increase in the private sector-targeted portfolio. Set-aside projects make up about 50 per cent of the overall value of these private sector target portfolio in the SCF (38 per cent for FIP, 64 per cent for PPCR and 58 per cent for SREP), with broadly equivalent numbers when measured by project number (56 per cent for FIP, 47 per cent for SREP, 59 per cent for PPPCR). This implies that the set-asides have approximately doubled the monetary value and number of private sector projects in the SCF programs.

19. **SCF resources expect to attract co-finance at the same or higher levels than the investment plan.** Table 2 shows that the co-finance/leverage[4] rate from set-aside resources is expected to be appreciably higher in the FIP and SREP than is predicted for projects in the investment plan, while for the PPCR the co-finance rates are broadly the same.

Table 2. **Endorsed project concepts under the FIP and SREP set-asides are expected to secure significantly more co-finance (including from the private sector) than the investment plan projects**

Program	Private sector set-aside		Investment Plan	
	Total leverage	**Private sector leverage**	**Total leverage**	**Private sector leverage**
FIP	1:4.1	1:2.8	1:2.4	1:0.17
PPCR	1:1.5	1:0.25	1:1.6	1:0.02
SREP	1:20.3	1:10.1	1:5.9	1:3.0

Note: *Co-finance rates for the set-asides taken from project concept notes where available in the public domain. Co-finance rates for the Investment Plan from Vivid Economics analysis of CIF AU data, up to date as of 18th September 2014. Note that the high leverage for SREP under the set-aside is driven to a significant extent by the Olkaria VI Geothermal Power Plant.*

Source: *Vivid Economics*

[4] Leverage/co-finance rate is defined here as the ratio of set-aside funding to all non-set-aside funding, with private sector co-finance rate referring to the ratio of set-aside funding to private sector funding for a project.

20. **Private sector co-finance is also expected to be high.** Table 2 shows that the private sector co-finance rate is also expected to be significantly higher than in the projects supported under the endorsed investment plan, across all three SCF targeted programs. Indeed, in the FIP and SREP, the private sector leverage ratio in the set-aside projects is greater than the total leverage rate in the projects supported under the endorsed investment plans.

21. **The majority of endorsed concepts across all three targeted programs have been through the private sector arms of the MDBs.** Only three project concepts using the public sector arms of the MDBs have been endorsed, two in SREP and one in the PPCR. These projects requested a total of $24.8 million of set-aside funds, out of a total of over $200 million.

3.2 FIP

22. **A number of - but not all - stakeholders, including pilot country representatives and those from MDBs, considered that the quality of a number of the projects selected under the first round of the FIP was high.** For instance, the IFC considers that its Brazilian project *Commercial Reforestation of Modified Lands in Cerrado* is significant in terms of demonstrating the likely commercial viability of the activities at an, as yet, unproven scale. Likewise, IDB's project *Guarantee Fund for financing low carbon forestry investments* in Mexico was praised by the expert group for demonstrating how commonly-used financial instruments could be used in new contexts to promote forestry investments.

3.3 PPCR

23. **The PPCR has seen the most number of project concepts brought forward, with the greatest geographic diversity and the most number of project concepts endorsed.** In total, nineteen project concepts were brought forward in the two rounds of the set-aside (eleven in the first round, eight in the second round). This is higher than in either of the other two programs (sixteen in SREP, eleven in FIP). Of the nineteen project concepts brought forward, twelve[5] have been endorsed which is also higher than either of the other programs. Consistent with these relatively high numbers, the questionnaire responses rated the 'adequacy of the number of projects brought forward for competitive selection' as higher for the PPCR than either of the other programs.

24. **Some specific projects have been widely praised.** Expert group members were particularly complementary about the EBRD's projects in Tajikistan: *Enhancing the Climate Resilience of the Energy Sector* and *Small Business Climate Resilience Financing Facility*. Both projects were considered innovative by the expert group – the first in its use of technology and the second in its proposed financing facility. Both projects also secured funding approval by the PPCR Sub-Committee within just four months of concept endorsement.

3.4 SREP

25. **The SREP set-aside has been able to endorse projects for the largest amount of funds and expects to attract the greatest amount of co-finance.** Across the two SREP rounds, project concepts requiring more than $92m of SREP funds have been approved, almost fifty per cent more than in the PPCR. This is expected to secure significant amounts of co-finance, at a rate of almost 20:1 for projects with available data, with the AfDB's *Olkaria IV Geothermal Power Plant* particularly noteworthy in this regard. This project was also praised by members of the expert group for creating new partnerships between commercial project developers, local banks, local suppliers and the Government of Kenya. In addition, the World Bank's *Kenya Climate Venture Facility (KCFV) Project*, which will provide seed and early stage financing to promising start up and early stage companies developing renewable energy and climate technologies, was considered by a number of stakeholders, especially in the expert group, to be likely to have significant catalytic impact. Across a number of different dimensions – overall success of the set-aside, quality of the concept notes submitted, the quality of concepts approved and the level of innovation – the questionnaire responses rated the SREP set-aside to be the most successful.

4 Shortcomings of the set-asides

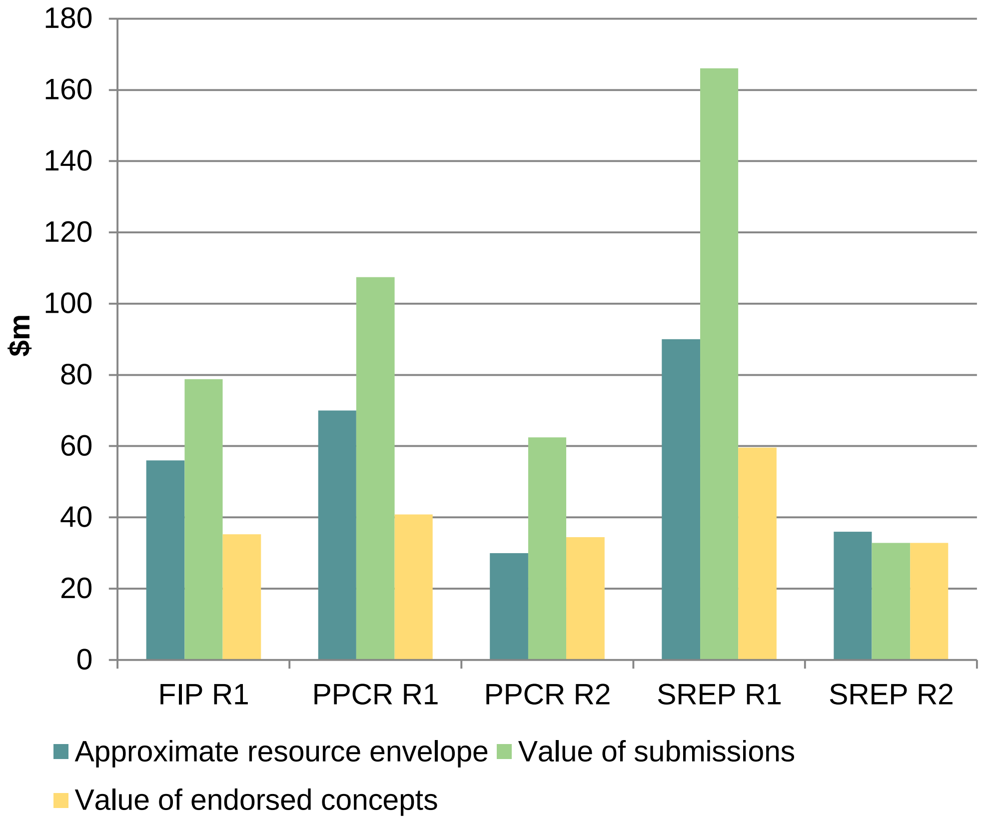
4.1 Concerns over the processes of the set-asides

26. **The number of high quality concepts has been lower than expected.** Expert group members, CIF AU representatives and Sub-Committee members all identified the lack of high quality project concepts submitted, and hence the limited competition between them, as one of the key shortcomings of the set-asides.

27. **This was a particular concern in Round 2 of the SREP and PPCR set-asides.** Figure 1 shows the decline in the value of concepts that were submitted for review between rounds 1 and 2 for both the PPCR and SREP. This significantly diminished the effective competition between different projects for funding: in the case of SREP, all of the projects submitted for funding in the second round were recommended by the expert group, while for PPCR, half of the funding requests were endorsed and another three were invited to resubmit for endorsement by mail, of which two were resubmitted and endorsed in September 2014.

28. **But it was also a problem during Round 1.** While the number and value of projects submitted in round 1 was higher, a number of the expert group members considered that the effective competition in Round 1 was also low due to the submission of a number of low quality project concepts. Figure 1 also indicates this: all three Round 1 set-asides received project concepts in excess of the resource envelope indicated but none of the expert groups recommended that the entire resource envelope be used.

Figure 1. **The value of concepts submitted to the set-asides fell significantly in the second round**



Note: In Round 2 of the PPCR set-aside, the procedures for allocating resources identified 'at least' $30m of resources being available. Ultimately, including the two project concepts endorsed in September 2014, concepts requested funding of $34.5m were endorsed.

Source: Vivid Economics

29. **This lack of competition is reflected in the extent to which different MDBs were able or willing in the set-aside process.** As Table 3 shows, while the AfDB and IDB have submitted a significant number of concepts, and the position of the EBRD is unique as it is only involved in one SCF pilot country, neither the ADB nor IFC have actively engaged in the process to the same extent. The World Bank submitted a moderate number of concepts, with most of these being developed in SREP.

Table 3. **The number of project concepts brought forward by the MDBs varies significantly**

	FIP		PPCR		SREP		Total	
	Number of project concepts	Number of pilot countries/ regions in which RDB is active	Number of project concepts	Number of pilot countries/ regions in which RDB is active	Number of project concepts	Number of pilot countries/ regions in which RDB is active	Number of project concepts	Number of pilot countries/ regions in which RDB is active
AfDB	5	3	3	3	5	5	13	11
ADB	0	2	2	5	1	2	3	9
EBRD	0	0	2	1	0	0	2	1
IDB	2	3	8	2	4	1	14	6
IFC	1		0		0		1	
World Bank	2		1		5		8	

Note: regional programs are counted as one country

Source: Vivid Economics analysis of CIF AU data

30. **Linked to the limited competition is a concern that projects lack the innovation that the Sub-Committees sought when establishing the set-asides.** While there were a number of individual projects that many consider to have the potential to be innovative (on a range of different dimensions), a number of stakeholders - most notably in the expert groups, CIF AU and some contributor country representatives - consider that across the portfolio as a whole, both the concepts submitted and selected, have not been as innovative as desired. Many of these stakeholders expressed concern that some of the projects brought forward might have been able to proceed without set-aside funding, which calls into question the extent to which the set-asides are stimulating new ideas that are innovative along the various dimensions identified by the Sub Committees, although this is inherently difficult to judge.

31. **The concerns over innovation appear to be most pronounced in the FIP.** Although there are specific instances of innovation with respect to financing or implementation approaches within the types of projects proposed, stakeholder interviews - including those with expert members, the CIF AU and MDB representatives - suggest that the overall degree of innovation within the FIP set-aside was

lower than expected. In particular, a concern was expressed that the shortlist of selected project concepts was narrowly focused on agroforestry or timber plantations opportunities. While these are recognized as important projects as they respond to some of the key drivers of deforestation, stakeholders also expressed surprise that there was little effort to develop projects, for instance, on supporting sustainable supply chains. These views are corroborated by the questionnaire responses where the FIP scored lowest for both overall success and joint lowest for level of innovation (2.4 and 3, respectively, on a scale of 1-6).

4.2 Reasons for the shortcomings

32. **Four key factors explain why, to date, and despite some successes, the set-asides have not been as successful as hoped in terms of the number of project concepts and the level of innovation.** These are set out below and their interactions explored. In addition, the importance of these factors differs across the different MDBs, as well as between different countries and programs. These differences are explored where evidence is available.

4.2.1 Challenges integrating the set-asides into MDB processes

33. **The timelines and processes of the set-asides did not always mesh well with MDB internal processes.** A number of MDB representatives interviewed stressed that the timelines for the set-aside process, were very compressed. This was most pronounced for Round 2 for PPCR and SREP set-asides with project concepts expected within two months of the process opening. This made it very difficult to develop high-quality project concepts, especially if MDB co-finance was desired. Representatives from MDBs also noted that the timing of the windows for submission also limited the number of concepts that could be submitted, as some projects may have been ready for submission at times when the window was closed.

34. **The uncertainty over project funding, and the length of time until decisions were reached, may also have held back engagement in the set-aside process.** The development of high-quality project concepts requires an investment of time and resources from MDBs. The competitive allocation of set-aside resources means that the pay-off from this investment of time and resources – in terms of successfully securing funding – is uncertain and sometimes protracted[6]. Further, even if the MDB is successful, the nature of the SCF and its countries of operation means that size and complexity of the resulting project are often less attractive than other project development opportunities within their pipelines. At the same time, there is little or no downside resulting from not engaging with the set-asides. The combination of these factors means that MDBs did not always find the set-aside process particularly attractive.

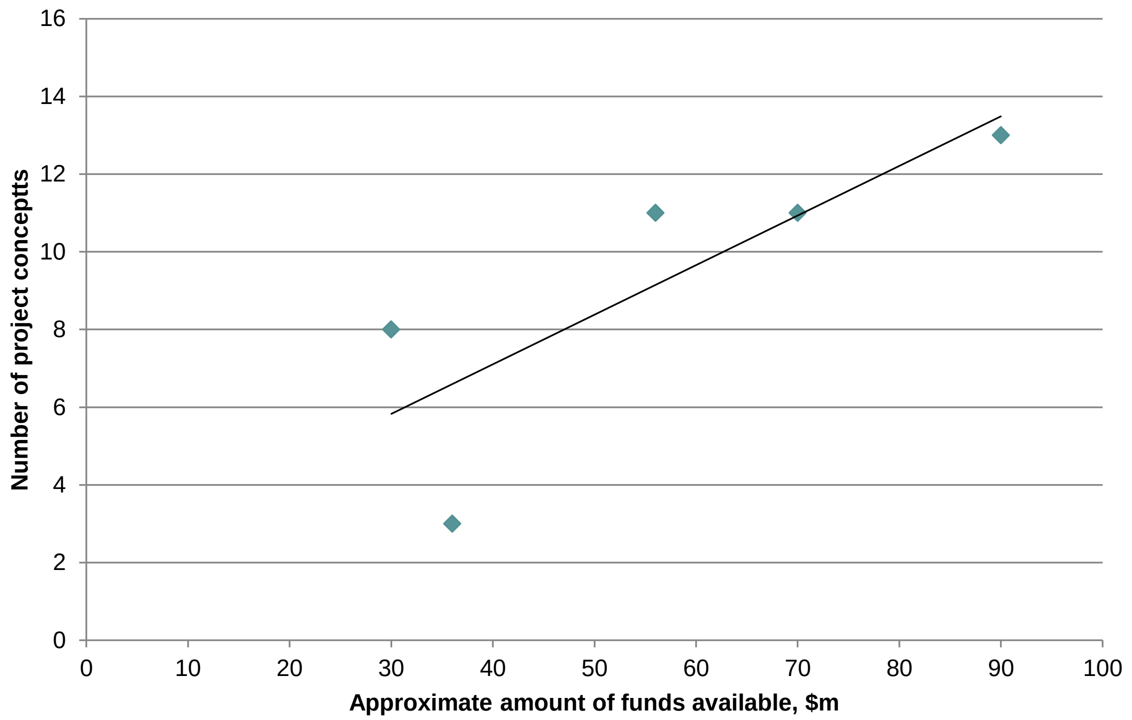
[6] For instance, in the case of Round 2 of the PPCR, the deadline for submitting project concepts was April 30 2014, with two project concepts receiving endorsement on September 18 2014.

35. **These integration challenges differ across the MDBs.** Representatives from regional development banks (RDBs) often (but not always) emphasized these constraints and challenges less than those from the World Bank and IFC.

36. **A number of project developers interviewed for this assessment argued that this was the key barrier holding back the development of the set-asides.** In a number of cases, project developers brought concept ideas to MDBs who then chose not to pursue their development, sometimes leading to acrimonious relationships. Often MDB representatives note that this was because the concepts were ill-conceived, because developers failed to understand the objectives and/or requirements of the set-aside process, or because they did not meet the standards that would be required for MDB processing. However, a number of developers felt that the small size of the projects and the relative lack of interest in the set-asides within some MDBs were more important factors.

37. **The importance of these difficulties is likely to be related to the overall level of funding made available.** When greater amounts of resources are made available, engagement in the set-asides by MDBs may become more attractive as the amount of funding that might be secured increases. Figure 2 presents descriptive evidence in support of this hypothesis. This may help explain the low number of concepts brought forward under Round 2 of the PPCR and SREP in particular.

Figure 2. **When the set-aside funding allocation has been higher, the number of project concepts brought forward has been higher**



Source: *Vivid Economics*

4.2.2 Geographic restrictions on eligibility

38. **The requirement that set-aside projects could only come from countries with an approved investment plan within a SCF program has made it more difficult for MDBs to source a large number of high quality, innovative projects.** This requirement reduced the countries where set-aside projects could be located to eight in the case of FIP, eighteen in the case of PPCR and six (rising to eight) in the case of SREP. This constraint was introduced to enhance the integration between set-aside projects and investment plans so as to enhance the programmatic impact of SCF funds. However, in some countries, requiring consistency with the investment plan limited the nature of projects possible under the set-aside while the smaller the pool of countries from which projects can be drawn, the greater will be the difficulties in generating a large number of proposals. MDBs report that this made the development of regional projects particularly challenging as the probability of a financially/economically attractive regional project only including relevant eligible SCF countries was small.

39. **This issue is likely to be particularly acute in the PPCR and SREP, as many of the selected countries have a relatively weak enabling environment.** As one indicator of this challenge, Table 4**Error! Reference source not found.** shows the average ease of doing business index, as a proxy for the private sector enabling environment, in each of the three programs. The highest ranking, which reflects the most difficult environment in which to do business, is 188. It is clear that all three programs typically operate in difficult environments, with this ranking suggesting that SREP countries, on average, have the worst enabling environment. It is striking that within the bottom decile of countries with the worst ease of doing business rank, there are two PPCR countries (Niger and Haiti) and one FIP country (Democratic Republic of Congo).

Table 4. **The set-asides generally operates in countries with a poor enabling environment**

Variable	Average ease of doing business index ranking
FIP	112
PPCR	113
SREP	128

Note: Higher ranking implies that it is more difficult to do business. Highest ranking: 188

Source: Vivid Economics based on World Bank Ease of Doing Business indicators.

40. **These challenges exacerbate the problems associated with integrating the set-asides into MDB processes.** The restriction on the pool of countries from which set-aside projects can be drawn serves

to make the set-aside less attractive from the perspective of MDBs, especially in those cases where the restriction is towards countries with limited local capacity or unsupportive enabling environments.

41. **Recently, there has been some liberalization of geographic restrictions.** In June 2014, the PPCR Sub-Committee agreed to an expansion of PPCR set-aside activities to low and lower middle income CIF countries[7] (Climate Investment Funds, 2014b). Similarly, under the CTF DPSP phase II approved program concepts, projects can be developed within CIF countries.

4.2.3 Actual and perceived unavailability of instruments

42. **Limited instrument availability as well as a lack of clarity over instrument availability may have restricted the number and diversity of project concepts.** The vast bulk of the resources allocated to project concepts in the set-asides have been hard-currency denominated concessional debt. Only the SREP set-aside made grant resources available (with one endorsed concept in the first round and all three endorsed concepts in the second round envisaging the use of grant resources). While local currency loans were available through all three set-asides on a project-by-project basis, many project developers, MDBs and pilot country representatives did not realize this. The actual and perceived lack of availability of grants and local currency loans may have held back involvement by both MDBs and project developers and created a tendency towards relatively conventional projects. In particular, a number of stakeholders identified how grant resources, while needing to be used judiciously to avoid perverse incentives and market distortions, could play an important role in stimulating private sector investment. While the clearest cases for the use of grants is in projects that enhance the enabling environment or improve private sector capacity, where allocated carefully (for instance through competitive subsidy mechanisms), they may also have a role in supporting investments. Similarly, a range of previous CIF learning products have pointed to the important role that local currency lending can play in supporting private sector investment in pilot countries (Vivid Economics, 2014).

43. **This may have been particularly important in the FIP.** Private sector financing of many forestry activities remains untested and is associated with significant risks. These include land tenure risks; incomplete or non-existent policy frameworks; and uncertain information on forestry resources. In these situations, conventional concessional debt products may not attract private sector investors to projects that have the greatest long-term transformational potential to tackle deforestation. Stakeholders, including expert group members and MDB representatives, pointed, in particular, to the role that the grant resources could play in the FIP set-aside to help enhance private sector capacity, for example through projects such as developing web-based information services on wood value/supply chains.

44. **Uncertainty over the terms of conventional loans may also have made the set-aside less attractive for some MDBs.** Even in the cases where projects could appropriately sustain the use of the hard-currency denominated loans, some MDBs reported that the lack of certainty over the likely terms of

[7] Definitions to be based on World Bank classification by income

the loans at the point of project concept development made it harder for them to engage and sustain private sector interest. However, other MDBs pointed out that this uncertainty was derived from the application of the principle of least-concessionality (so that the terms of the loan are only determined when the project is further developed and the need and extent of concessionality can be accurately assessed) and that this principle should not be undermined.

4.2.4 Lack of awareness and capacity

45. **A number of stakeholders, including expert group members (especially those nominated by pilot countries) and pilot country representatives, consider that there was insufficient awareness of the set-asides within pilot countries, and that this restricted involvement in the set-asides.** In the first round of the set-asides there were no resources explicitly dedicated to outreach. In the second round of the PPCR, resources were made available to MDBs to support outreach activities, but only the AfDB used this funding. The relatively short timeframes available in the second round of the PPCR set-aside is likely to have contributed to the lack of uptake of these resources by some MDBs.

46. **This lack of awareness of the set-asides was compounded by a lack of capacity among some of the potential project sponsors, especially in the PPCR.** A number of MDBs consider that the quality of the project concepts that potential project sponsors in pilot countries wished to pursue was sometimes weak: they did not always have a clear link with the objectives of the relevant program of the SCF and the investment plan in the pilot country; they may have been developed with outdated information; or they involved the use of financially weak counterparts. These problems appear to have been particularly evident in the PPCR where a number of MDBs pointed to a lack of awareness among potential project developers about what constitutes a private sector adaptation/climate resilience project.

47. **In addressing these challenges, it is important to consider the quality as well as the quantity of information provided by any outreach activities.** A source of frustration for project developers and MDBs in all three set-asides was a lack of understanding of the role that the MDBs were expected to play within the set-asides and the associated due diligence of project concepts that this implied. Both MDBs and project developers felt that this role was not always well articulated in the promotional material of the set-asides leading to challenging relationships between some project sponsors and MDBs.

48. **Table 5 summarizes the key reasons for the shortcomings experienced by the set-asides and the aspects where these reasons appear to be particularly important.**

Table 5. **While all of the factors help to explain the shortcomings of the set-aside, their relative importance differs across the programs**

Reason for set-asides weakness	Aspect of set-asides appears where this weakness reason appears particularly prevalent
Challenges integrating set-asides into MDB processes	- All, but particularly in Round 2 of SREP and PPCR set-aside-asides when fewer resources and compressed timescales made engagement less attractive - Possibly more significant in IFC and WB than in RDBs
Geographic restrictions on the set-asides	- All, but perhaps most relevant in SREP and PPCR where enabling environment within pilot countries is most challenging
Actual and perceived unavailability of instruments	- All, but likely to be most relevant in explaining lack of innovation in the FIP
Lack of awareness and capacity by developers	- All, but most evident in PPCR in terms of limited understanding of private sector adaptation/resilience projects

Source: Vivid Economics

5 Strategic options for change

49. **This section sets out a series of strategic reforms and potential improvements to the SCF set-asides.** The first sub-section sets out some alternative models for the structural design of the set-asides, depending on the priorities of the SCF and its Sub-Committees. The second sub-section sets out some more incremental changes which could be implemented within the current framework of the set-asides.

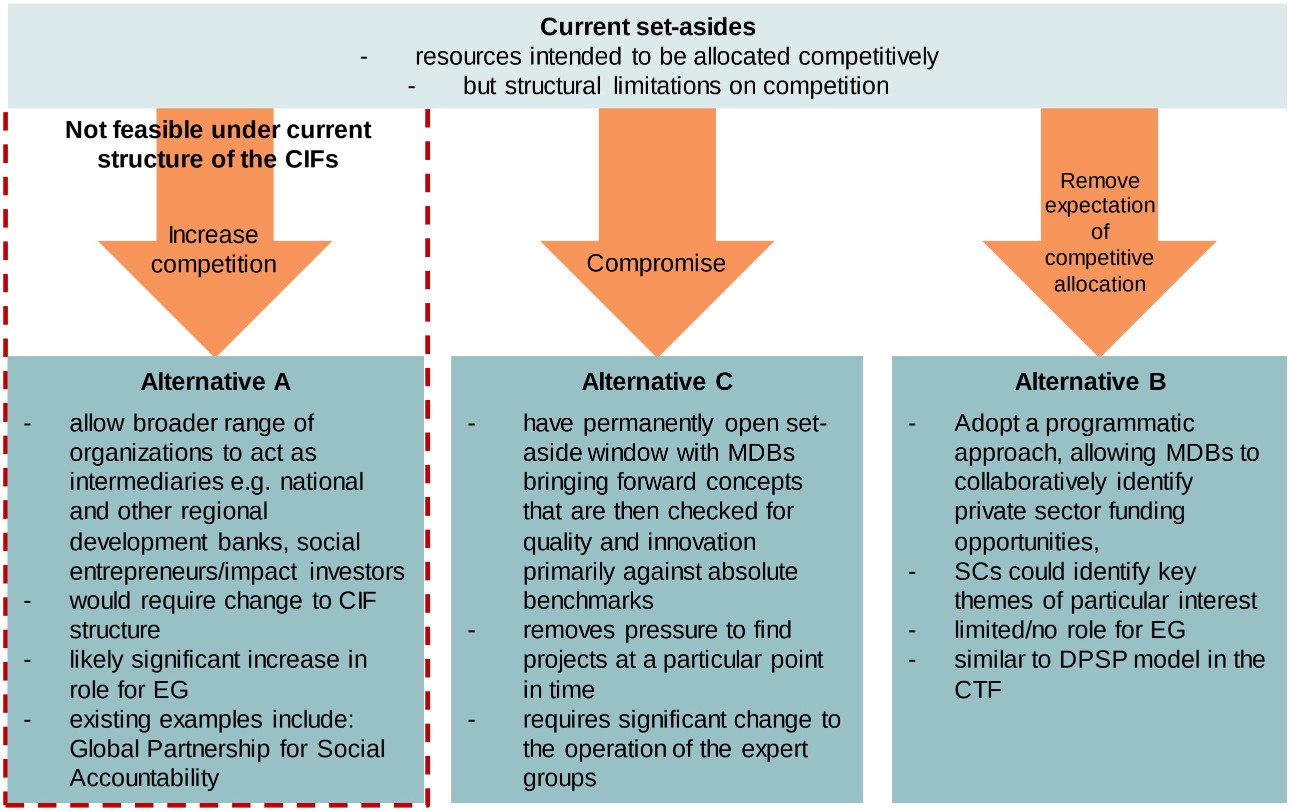
50. **The review does not cover options related to the overall size of the set-asides.** To be undertaken rigorously, this sort of analysis would require an assessment of the relative merits of the competing uses of resources, which is beyond the scope of this review. Nonetheless, as Figure 2 makes clear, it does appear to be the case that more project concepts have been brought forward for consideration when more resources are made available.

5.1 Structural changes to the set-asides

51. **There is a tension between the professed intention for the set-asides to allocate resources on a competitive basis and the current institutional set-up of the CIF.** The set-aside is intended to allocate SCF resources on a competitive basis: the project concepts that are best able to meet the objectives of the set-asides, as reflected in the judging criteria, are selected and project concepts which score poorly against these criteria are not taken forward. This competitive process was expected to lead to more and better project concepts being developed. However, the effectiveness of this competition is reduced by the structure of the CIF whereby only the MDBs are allowed to participate, a challenge further exacerbated by the weak incentives that these organizations sometimes have to participate in the set-asides, as explored in section 4.1. In other words, the underlying structural conditions within the set-asides, especially when coupled with certain design features of the set-asides, are not well geared to engender vigorous competition.

52. **There appear to be three main models available to try and resolve this tension.** These are set out in Figure 3 and described further below.

Figure 3. **Options for resolving the tension within the set-asides**



Source: Vivid Economics

5.1.1 Allow concept proposals to be submitted without support of the MDBs

53. **This model would allow project sponsors to come forward with a wider range of supporting/implementing organizations, or possibly even with none, and would not require MDB co-finance.** As well as working alongside MDBs, project sponsors would be able to acquire implementation support from other development finance institutions (either national or regional), and potentially from social entrepreneurs and impact investors. One idea proposed was that local partners could work alongside large multinational corporations who would help in identifying viable concept and implementation support. It would also be possible for project sponsors to approach the set-aside unilaterally. The intention would be to allow organizations that have a strong incentive to engage in the set-asides to potentially access the resources. This approach could apply equally to the FIP, PPCR and SREP set-asides.

54. **There are a number of precedents for these sorts of arrangements in climate finance, and more broadly, and they have generated a significant number of proposals.** For instance, the Global

Partnership for Social Accountability (GPSA) competitively awards grant funding to CSOs for projects consistent with its objectives[8]. In its first funding round, it selected 12 proposals to receive funding of $9m from a portfolio of 216 applications, while the second funding round resulted in over 420 proposals[9]. The Global Innovation Lab for Climate Finance also provides some parallels: it invited a wide range of parties to identify innovative climate finance instruments and received more than 80 applications. However, it should be stressed that this competition was intended to develop instrument concepts, not project proposals.

55. **This model could also incorporate a thematic aspect.** In the GPSA model discussed above, prior to the global call for proposals, each country engages in a consultative process with stakeholders including government, civil society and other donor agencies, to define the key issues (thematic areas) that proposals from that country should seek to address. A similar model could be adopted in the set-asides in order to boost country ownership and the programmatic benefits from the set-aside in that country. Development of thematic areas might also reduce the burden placed on the expert group in judging the concepts. However, restricting concepts to lie within certain themes could reduce the potential for flexibility, innovation and competition which may be of concern given the challenging enabling environments in some SCF countries.

56. **The CIF could not pursue this model under its current governance structure and changes to this structure could jeopardise some of the key advantages of the CIF.** It would require a change to the current governance structures and policy documents so that bodies other than the MDBs could be implementing entities of the CIF. As the role of the MDBs within the CIF is fundamental to its design, changes to the role of the MDB in response to challenges within the SCF set-asides is likely to be disproportionate. It would also likely mean that the lean administrative arrangements of the CIF –an integral feature of the rapid establishment of the CIF and are often argued to be one of its main advantages – would need to be augmented to allow the CIF AU to support decisions on which additional implementing entities to accredit. However, this model could be considered and pursued by other climate finance funds and vehicles.

5.1.2 Adopt a programmatic approach to the set-asides, with MDBs either individually or in collaboration, allocating funding to develop high quality projects (possibly within themes)

57. **A model at the alternative end of the spectrum would be to provide an envelope of funding to MDBs who would then co-operatively allocate the resources to eligible projects, potentially with a requirement that the funding opportunities advance globally identified themes.** The essence of the model could be similar to the Dedicated Private Sector Programs (DPSP) of the Clean Technology Fund. The collaborative emphasis in this model would remove the need for an expert group to assess the merits of different concept notes.

[8] As discussed below, specific country themes are identified to ensure alignment with national objectives, but with projects competing globally.

[9] More details on the grant making process for the GPSA can be found here: http://www.thegpsa.org/sa/funding/grant-making-process

58. **This model could offer some important advantages.** If well-designed, this model would be closely aligned with the MDBs' existing business development processes: appropriate projects could be developed in line with the opportunities and constraints on the ground rather than according to an externally imposed timetable which, as noted above, can mean that the best projects are not taken forward. The uncertainty as to whether or not time spent on concept development might be wasted, which acts as a deterrent to participation in the set-aside, would also be significantly removed. Rather, the model would recognize that the MDBs, with their extensive in-country networks, financing track record, understanding of the CIF, and development expertise are likely to be the best source of high quality, bankable projects consistent with the objectives of the SCF. The use of specific themes could direct MDB attention towards areas where the desirability of piloting new, innovative approaches could be highest. This may be particularly valuable in the case of the FIP where there appears to have been a particular concern surrounding the narrowness of the project concepts developed to date, although there may also be opportunities in the PPCR, for example, in the use of insurance mechanisms to promote climate resilience.

59. **The key concern of some stakeholders, including project developers and expert group members, is that the continued exclusive use of the MDBs, and, indeed, reducing the extent of competition between them, might impede the development of a larger pool of more innovative concepts.** Although this model might remove some of the tensions that have limited MDB engagement to date (uncertainty over whether projects would secure funding, diminishing the incentive to participate), it would place exclusive reliance on MDB business development activities to meet the objectives that the Sub-Committee has for the set-asides. Competition between MDBs to develop better proposals would be diminished. Based on experience with the DPSP, some (but not all) MDB representatives raised concerns that a model akin to the CTF DPSP might require excessive preparation and negotiation between the MDBs, leading to a slow project selection and development process.

5.1.3 Open window for project concept submissions

60. **A third option is a less direct form of competition between MDBs through an open window for project concept submissions.** Instead of moving to intensify competition or replace it with MDB collaboration in allocating the funds, this model would alter the nature of competition between MDBs. With an open window, project concepts would be brought forward when they are ready and primarily be judged against an absolute standard, rather than relative to concepts submitted by other MDBs. A limit could be placed on the amount of resources allocated in any one quarter or half year. The model could also be combined with a country-specific thematic approach, as discussed above.

61. **This might improve engagement of the MDBs and the number of high quality projects.** As discussed above, a number of MDBs noted that the chances that private sector projects were ready for submission within the short (and irregularly timed) funding windows were slim. Having windows open for longer periods of time or permanently might make it easier for MDBs to submit high quality, innovative projects to the set-asides.

62. **The role and processes of the expert group would have to be altered.** Many private sector projects work within relatively tight timeframes, so submissions would require prompt decisions throughout the year. This would require changes to the process of the expert group, with ad-hoc virtual meetings to assess concepts against the criteria seeming most promising.

63. **An open window could lead to procedural difficulties in allocating funding**. Comparative analysis of different projects would likely become significantly more difficult; it would also be more challenging to have a balanced portfolio of projects with different types of innovation. Depending on the amount of funding available, it is possible that if a number of high quality projects were put forward in a given time frame, then funding would run out. This raises the possibility of higher quality project concepts missing out on funding because they are brought forward after lower quality projects concepts have already been approved. While this risk would be reduced by identifying a maximum amount of resource that could be allocated to project concepts in any one quarter or half year, and allowing unused resources to be carried over between these periods, it would not be eliminated.

5.2 Incremental measures for improvement

64. **There are a number of promising measures that can be made within the existing structure of the set-asides**. These measures address the four main challenges to the set-asides set out in section 4, and could feasibly be implemented in a relatively short timeframe. In this subsection they are discussed in relation to the challenges that they are intended to address. In general terms, they are put forward as a package of measures that the relevant SCF Sub-Committees may wish to consider, although, where measures are likely to be particularly relevant to specific targeted SCF programs, this is identified.

Table 6. **A shortlist of incremental measures to improve the set-asides**

Challenge	Measure
Difficulties integrating the set-asides within MDB processes	Provide (tiered) grant funding for MDBs to develop proposals
	Regularize the timing of the call and provide sufficient time to respond
	Place less emphasis on MDB co-finance in evaluating and selecting concepts
Geographic restrictions on eligibility	Allow expansion to other SCF and/or CIF countries on a program-by-program basis
Terms of resources available	Clarify and increase the availability of grant funding and local currency loans and identify the types of project that will be prioritized for its use
Awareness and capacity of developers	Develop strategic plan for enhanced outreach, with a coordinating role for the CIF AU
	Establish a pool of consultants to facilitate liaison between MDBs and project sponsors in concept development

Source: Vivid Economics

5.2.1 Aligning MDBs and set-asides

Measure 1: Provide (tiered) grant funding for MDBs to develop proposals

64. **Grant funding would improve the incentives and reduce the risk for the MDBs to develop concept proposals.** This proposal is intended to directly alleviate the limited incentives for MDBs to engage with the set-aside process. It could apply equally to all of the set-asides.

65. **This measure was among the most popular among interviewees and survey respondents.** It was largely recognized as a desirable reform and was suggested by a number of stakeholders from a range of perspectives. It received the highest score of any proposal in the survey question on options to increase the number of high quality proposals, with an average score of 1.9 on a scale of -3 to 3.

66. **One popular option is to provide tiered grant funding in two or more stages.** The idea is to have funding to support the different stages of project development, for example:
    - Stage 0: market scoping activities within eligible countries to develop a shortlist of concepts, perhaps within investment 'themes'. This may be particularly valuable if the set-asides are expanded to countries without an IP, as discussed below.
    - Stage 1: development of the best concepts to a more detailed project proposal.
    - Stage 2: selection of projects to be implemented.

    In other words, in contrast to the current model, there would be more than one point during the project concept development stage when concepts would be subject to scrutiny.

67. **In this 'tiered' model, the expert group role would probably expand, bringing both advantages and disadvantages.** As there would be more than one stage of project concept development, the transition from one stage to the next would most logically fall on the expert groups. This approach could increase the clarity of what is expected from a concept note, enhance competition through the submission of more early stage concept proposals and give greater opportunity for reflection and engagement of the expert group. However, it would also increase logistical costs and might compromise the flexibilityof the MDBs – as expert groups would have a strong expectation as to how the projects might be expected to develop through the process.

Measure 2: Regularize the timing of the call and provide sufficient time to respond

68. **More regular timing of the call, and a longer window, might make effective engagement of MDBs and project developers easier.** A number of MDBs and private sector project developers consider that the process of announcing set-asides was haphazard and that they were given little time to respond. This may have created incentives to find 'easier' projects, which raises questions regarding innovation and additionality. It may also have resulted in projects that were ready for submission outside of the window either missing out on funding or submitting a less-than-complete concept note. Rather than having a window open for a longer time frame, as discussed in section 5.1.3, these shortcomings could be partly alleviated by having the window open at the same time each year and

ensuring sufficient time to respond – perhaps 3-4 months with effective outreach and MDB engagement.

69. **This option was popular among interviewees and questionnaire respondents, in particular pilot country representatives, MDBs and project developers.** All questionnaire respondents considered that this would have a neutral or positive effect on the number of high quality concepts submitted. It is a measure that could be equally applied to all of the set-asides.

Measure 3: Place less emphasis on MDB co-finance in evaluating and selecting concepts

70. **There was a degree of uncertainty regarding requirements for co-financing, with some considering it to be obligatory, but others not.** Although the procedures for the set-aside do not require MDB co-financing, FIP, SREP and PPCR all explicitly scored concepts on leverage, consistent with the fundamental aim of achieving leverage in the CIF. Some MDBs may require investment of their own resources to take forward concepts, irrespective of CIF requirements.

71. **Although there are clear benefits of MDB co-financing, more clarity on requirements, as well as less emphasis, may yield improvements to concept submissions.** There are significant benefits of securing MDB leverage: it can help to increase the overall flow of funds towards SCF objectives; and most MDBs considered that, either explicitly or implicitly, the due diligence associated with MDB financing helps ensure that only the most commercially robust proposals are taken forward for project implementation and subject to the appropriate monitoring throughout the project life cycle. However, the lack of clarity over whether co-financing was a requirement, and the difference in policy between MDBs, was reported as a difficulty for project developers in submitting timely, high quality proposals. Further, an expectation that projects which generate large amounts of leverage will be preferred in the set-asides may lead MDBs to favor relatively 'safe' projects, perhaps with less innovation, additionality and transformative potential. This suggests a trade-off, at least in the short run, between the amount of MDB leverage and the degree of innovation exhibited in projects.

72. **One option would be for the set-asides to require a minimum level of MDB co-finance rather than assessing proposals according to their level of co-finance.** This could facilitate consistency across MDBs' policies, and therefore clarity for private sector project developers, while also reducing the incentive for MDBs to focus on 'safe' projects. To reflect the differences in availability of co-finance across the three programs (see Table 2), the minimum level of co-finance required would likely be program-specific, with likely lower requirements in the case of the PPCR.

5.2.2 Geographic restrictions

Measure 4: Allow expansion to other SCF and/or CIF countries on a program-by-program basis

73. **Expanding the number of countries eligible to receive funding from the set-asides would allow more proposals to be considered, and might increase the quality of those accepted.** A number of interviewees, in particular project developers and MDBs, felt that there were opportunities for high

quality, innovative private sector projects in CIF countries that were not participating in the relevant SCF program , either elsewhere in the SCF, or because they did not have an endorsed investment plan when the set-asides were announced. Expansion of eligible CIF countries may also increase learning between countries and increase the feasibility of regional projects, which may be important for countries with smaller markets that may otherwise be overlooked.

74. **Expansion of eligibility was one of the most popular options among stakeholders.** This was true in interviews, across a range of stakeholders, and questionnaires, where expansion to all SCF countries achieved an average score of 1.9 and expansion to all CIF countries scored 1.8 (on a scale of -3 to 3).

75. **However, expanding eligibility may weaken the goals and transformative potential of the set-asides.** The set-asides were intended to strengthen private sector investment in some weak enabling environments, and some stakeholders, especially pilot country representatives and some expert group members, considered expansion of eligibility could be interpreted as giving up on this difficult, but important, challenge. They particularly note that a number of currently eligible countries have yet to engage in the process. Private sector investments in the set-asides are also intended to complement those from investment plans in pilot countries to achieve transformational change, and this may be compromised by an expansion of eligibility. To ensure a programmatic approach in countries without an investment plan, it could be a requirement to demonstrate that projects align with relevant country objectives and priorities. This could be achieved with reference to existing strategies or through market scoping studies, for example in the proposed first stage in a tiered funding process.

76. **Expansion of the set-asides outside of the CIF is probably infeasible, and expansion within the CIF should be considered on a program-by-program basis.** The optimal extent of expansion is likely to differ, with one set of options as follows:
   - The PPCR Sub-Committee has already decided in June 2014 to expand private sector activities to low and lower middle income[10] CIF countries. This may address the issue in the short-medium term, though the inclusion of upper middle income countries may still be considered in the future.
   - SREP has less need to expand beyond the SCF due to the complementary role of the CTF. It may be most appropriate to allow expansion to new SREP countries without an investment plan and/or other SCF countries (possibly restricted to low and lower income middle income countries).
   - FIP may expand to all CIF countries where deforestation and forest degradation is a major issue and the potential for sustainable forest management and enhanced forest carbon stocks is high.

5.2.3 Terms of resources

Measure 5: Clarify and increase the availability of grant funding and local currency loans and identify the types of project that will be prioritized for its use

[10] Based on World Bank country classification by income

77. **A number of respondents thought that increasing the availability of grant funding and being clearer about the availability of local currency lending would better encourage the development of private sector projects.** Greater clarity on the availability of financing on more generous terms might help overcome barriers to investment, by reducing the risk for those developing and financing projects. At the same time, MDBs were keen to emphasize that these resources must be deployed judiciously and, in the case of direct private-sector projects, while taking account of the principle of least-concessionality.

78. **Grant resources may be particularly valuable in enhancing private sector capacity and improving enabling environments in the FIP and PPCR.** A number of those involved in the FIP process felt that, in retrospect, there was too much emphasis placed on discrete private sector projects and argued for a greater role for projects that improved the governance within the private sector. They suggested, for example, grant resources would be valuable in supporting projects monitoring the commitments to zero deforestation by palm oil producers or in ensuring full participation of stakeholders during project planning. Likewise, among both the FIP and PPCR, the same types of stakeholders also emphasized that projects to improve the enabling environment would also be valuable, and that although resources for this had been identified in the PPCR set-aside, only making loans available for these projects made the resources insufficiently attractive. The merits of encouraging a breadth of project types for the PPCR and FIP set-aside is indicated in Table 7.

Table 7. **Questionnaire respondents were keen to see a breadth of project types, including private sector capacity building projects and projects improving the enabling environment, in the FIP and PPCR**

Type of project	FIP average survey rating (1 to 6)	PPCR average survey rating (1 to 6)	SREP average survey rating (1 to 6)	Overall average survey rating (1 to 6)
Direct private sector projects	4.8	5.3	4.8	5.0
Private sector capacity building	5.3	5.1	4.3	4.9
Improving enabling environment	5.3	5.0	3.3	4.7

Note: *A score of 1 indicates the type of project 'should definitely be excluded from the set-aside', while a 6 indicates 'should definitely be supported by the set-aside'*

Source: *Vivid Economics*

5.2.4 Awareness and capacity of developers

Measure 6: Develop strategic plan for enhanced outreach, with a coordinating role for the CIF AU

79. **The majority of stakeholders, especially expert group members and pilot country representatives, argued that improved outreach to project developers would help increase the number of high quality proposals.** Not only would this likely increase the number of concepts available for selection, but effective outreach should improve the quality of proposals, by improving project developers' understanding of the processes of both the set-asides and MDBs, as well as the expert group judging criteria (see more on this in section 6). A number of MDB representatives supported this idea as well, although others were concerned that any outreach activities may create tension with the internal business development activities of the organization.

80. **Some efforts have already been made to improve outreach in the second round, though these have been piecemeal.** PPCR procedures for the second round of the set-aside recognized a need for improved outreach and made $10,000 available per pilot country for MDB outreach efforts. As noted before, only the AfDB took advantage of this, and considered it moderately effective in terms of long-term sensitization. Other MDBs reported that the short timescales associated with Round 2 of the set-asides made it difficult for these activities to be undertaken

81. **A strategic plan involving multiple actors with various strengths and weaknesses in undertaking outreach would be more effective.** This plan would involve identifying a central oversight role for the CIF AU, who would look to facilitate a program of outreach activities in each pilot country, which they would determine in consultation with pilot country focal points and the relevant MDBs. This could include CSOs in countries where it is relevant. There could be benefits from looking to develop a more strategic approach to outreach in all of the SCF programs. Any additional outreach activity under the current model of the set-asides would benefit from increased clarity with regard to the respective roles and responsibilities of MDBs and project developers in taking forward projects.

Measure 7: Establish a pool of consultants to facilitate liaison between MDBs and project sponsors in concept development

82. **MDBs report a number of cases in which the quality of project concepts they have received are weak, and that private sector developers have a poor understanding of MDB processes**. Some project developers tried to submit concepts without engaging with MDBs, with some concepts failing to ensure consistency with the objectives of the investment plan, and using poor quality or outdated supporting evidence.

83. **Hiring consultants, perhaps through the use of grant resources discussed above, to support project developers with their submissions, in cooperation with the MDBs, could help to overcome these problems.** In relevant countries with weak capacity, consultants hired by CIF AU might work as a liaison between MDBs and project developers, to help enhance the quality of the projects and ensure that MDB processes can be understood by project developers. By reducing the time and resource commitment required by individuals within MDBs in concept development, it may also be helpful in increasing their incentives to engage with the set-asides. Some MDBs note that hiring consultants may be particularly valuable in countries where private sector capacity is weakest. Table 4 suggests that this is typically more likely to be a problem in relation to the PPCR, although

there are countries across all three programs of the SCF where these additional resources could be expected to be of value. It should be noted that while some MDB representatives were supportive of this idea, others were more skeptical , noting that it was the quality of the project fundamentals and the long-term management team that would determine the attractiveness of a particular project opportunity and that greater use of consultants would not alter these.

6 Amending the processes of the set-asides

6.1 Role of the expert groups

84. **The primary role of the expert groups (EGs) has been to review and assess proposals to facilitate efficient decision-making by the relevant Sub-Committee.** They have also played a secondary role in increasing the quality of project concepts and applications over time, and providing feedback and comments to project developers.

6.1.1 Successes and challenges in the role of the expert groups

85. **The majority of stakeholders, from a range of different perspectives, consider that the expert group added value to the set-asides.** Interviewees suggest that the expert groups have been effective, and survey respondents gave them a high average rating of 4.6 on a scale of 1-6 (4.5 excluding expert group members themselves). Similarly, the vast majority of stakeholders considered that removing the expert groups from the process would damage the set-asides. Sub-Committee members were broadly satisfied with their analysis and recommendations.

86. **Nonetheless, concerns were raised by some stakeholders about the changes made by the expert groups to assessment criteria, though this matter appears to be largely resolved.** Significant changes were made to the criteria used to assess concept notes in the first rounds of the process, as detailed in Box 2. These changes were particularly significant in the SREP set-aside. Some stakeholders, especially some MDB TTLs, considered that these changes were unhelpful, and increased the perception of risk for project developers and MDBs to engage in concept development. However, most interviewees believed that this issue has largely been resolved, and survey respondents gave an average score of 4.8 (out of 6) for the appropriateness of criteria in the latest round.

87. **There were challenges in achieving effective information exchange between MDBs and the expert groups.** Some expert group members considered information in concept notes lacked detail and was sometimes incomplete, although clarifications in discussions with MDBs were deemed useful. On the other hand, MDBs were often concerned that expert group members expected too much detail, and that additional information provided in questioning was not always taken into account in their recommendations and the Sub-Committees' decisions.

88. **There were also concerns raised over the capacity, knowledge and appropriateness of some members of the expert groups.** Such concerns were only raised by a small minority of stakeholders, typically from the MDB community, other expert group members and donor representatives. They included concerns that there was not an adequate balance of experts with experience in the private and public sector, and that experts did not have a broad enough range of skills and knowledge, especially transaction experience, or diverse enough backgrounds.

6.1.2 Options for amending the role of the expert groups

89. **A firm, well-known and transparent timetable for interaction between MDBs and the expert groups could improve the effectiveness of their working relationship.** This could consist of the following :
   - creating a firm, pre-established submissions timetable (with late submissions excluded);
   - a window of two to four weeks[11] to allow the expert group to make written requests for more information and to receive responses;
   - an in-person meeting of the expert groups timetabled sufficiently far in advance to allow the possibility of MDB representatives and/or project developers to be represented as part of the expert groups' assessments;
   - the length of the expert group meetings could be increased, particularly if more concepts were to be submitted;
   - an opportunity for MDBs to comment in detail on a draft of the expert groups' reports before a decision is made by the relevant Sub-Committee.

90. **Amendments to the process of choosing experts could help to improve the expert groups' experience, capacity and knowledge.** One option is to establish specific criteria for judging the effectiveness and appropriateness of potential members of the expert group. Another complementary option is to expand the size of the EGs to increase skills and resources available to the expert group, to give a more diverse range of backgrounds and opinions. However, this would increase logistical costs to the expert group process. These process changes are likely to be particularly important to consider in the event that the measures outlined in section 5.1 and 5.2 that focus particularly on increasing the number of project concepts brought forward, are pursued. One expert group member also commented that it would be more appropriate for the Sub-Committee to appoint a chairperson, rather than asking the experts to choose between themselves.

91. **Some expert group members argued for a significantly broader role for the expert group throughout the process, though this may have some significant drawbacks.** For example, the expert group might play a role in formulating criteria, or in selecting and developing projects through interaction and collaboration with the MDBs. However, such an expanded role would be difficult to achieve given existing organizational structure of the CIF, and risks creating confusion with respect to roles and responsibilities, as well as possible conflicts of interest.

6.2 The CIF Administrative Unit

92. **The CIF AU is generally perceived to have done a good job at facilitating implementation of the set-asides.** It was praised by a variety of interviewees, and survey respondents (excluding those from

[11] The length of the window is only suggestive and was not firmly specified by stakeholders.

the CIF AU) gave it an average ranking of 4.5 (on a 1-6 scale), with uniformly strong scores across the programs.

93. **Some stakeholders thought that the CIF AU could increase clarity to private sector project developers over the role of the MDBs in the set-aside process.** Both MDBs and project developers found a lack of information about the important role of MDB due diligence in communication about the set-asides to be frustrating. Project developers, in particular, suggested that greater information on the rules of the set-aside process, including the development of a detailed flow chart of the stages a project must go through from concept development to implementation, would be valuable.

94. **The CIF AU could providing greater guidance and align expectations about what is expected from a concept note.** The CIF AU, in collaboration with expert group and MDB members, could produce a document to guide what was expected from a concept note, drawing on current best practice for different types of projects across each of the three programs.

95. **Within the PPCR, a variety of stakeholders, including MDB and donor representatives, emphasized that greater guidance on what constitutes a private sector adaptation/climate resilience project would be helpful.** This would help both with increasing awareness about private sector adaptation projects among potential project developers as well as facilitate easier communication between MDBs and private sector developers. As greater practice develops, such guidance could include the development of specific case studies illustrating good practice in development and implementation.

6.3 Sub-Committees

96. **Stakeholders with a variety of perspectives seem broadly happy with the role currently played by the Sub-Committees in the set-asides.** The primary role of the Sub-Committees is to use recommendations provided by the expert groups and MDBs to select projects. They have also played an oversight role in the set-asides, deciding on its structure and rules and approving decisions. Stakeholders generally consider the Sub-Committees to have performed these roles effectively, with all but one survey respondent agreeing that Sub-Committees showed the right level of engagement when reviewing and endorsing project concepts. The only concern raised by MDB representatives related to the level of information/disclosure sometimes requested by the Sub-Committee about private sector projects, though this issue is not unique to the set-asides.

Appendix

The list of questions set out in the terms of reference, to be addressed in this report is as follows:

Review of the SCF set-aside process

- Overarching/ Strategic
  - Did the SCF set-aside procedures generate interest with private sector stakeholders in the pilot countries?
  - How effective was the outreach and communication strategies for the set-aside in the pilot countries? Who reached out and was the mechanism effective and did it provide clear guidance?
  - How are the SCF set-aside process and the proposals aligned with investment plan level objectives and principles?
  - Did the set-asides stimulate prospects that help further the goals and objectives of each SCF program?
  - What's the value-added of the set-aside in encouraging the private sector? If not for funding constraints, would/could those projects be developed as part of the country investment plans?
- Process and roles
  - The Process
    - Was enough time allowed to identify projects and prepare concept notes (each round should be considered separately).
    - Was the process used during the expert group meetings to seek MDB input and additional information on project concepts sufficient and well timed to enable a complete discussion of concept notes and provide feedback?
    - How could the set-aside process be organized differently to achieve better results?
  - MDBs
    - What was the role of MDBs in the set-aside process (engagement with potential clients for the PS set-aside, guidance and engagement in funding applications, potential co- financing discussions etc.)?
  - Country Focal Points
    - What was the role of country focal points and the level of his/her engagement?
    - How was the private sector engaged in your country through this process? Why were private sector companies and financial intermediaries able to engage or not?
  - Expert Group
    - How useful was the scoring systems (scoring themes, weighting etc.,)? Is there room for improvements?
    - Did the concept notes adequately address the issues to allow for an informed assessment?
    - What was the methodology used by the expert group to suggest the final ranking of the proposals?

        - What were main arguments by expert group to suggest the final ranking of the proposals?
        - What were the challenges you faced as an expert? What are your recommendations to improve the process?
    - The CIF Administrative Unit
        - What's your view on the value and process of the set-aside?
        - Do you find the set-aside a cost-effective way of engaging the private sector for the respective programs?
    - The Sub-Committees (members and observers)
        - Did the set-aside process fulfil the expectations of the Sub-Committee?
        - Was the process transparently managed?
        - Did the Sub-Committee have sufficient information available to make an informed decision on the expert group recommendations?
- Pool of received concepts (portfolio level)
    - What trade-offs were made, for example between innovation and project readiness (e.g. business models)?
    - Did the concepts show leverage of commercial funding as requested in the procedures?
    - Did the project concept notes present enough information to make an informed decision while respecting the fact that these were presented early in the project cycle? What would be the right balance in terms of timing and content for future rounds?
    - Did the project proponents face any particular operational challenges engaging in the private sector set-aside process (cost-effectiveness, lack of technical capacity, legal issues etc.)?
    - For FIP, what drivers of deforestation and forest degradation were addressed?
    - Did the common format or template for each program provide enough guidance for drafting of the project concept notes?
    - If time, explore: What could be learned from other private sector entities and funds, including financial intermediaries that promote private sector investment in climate resilient activities, renewable energy, and sustainable forest management and forest conservation and address the drivers of deforestation?

The list of questions developed by Vivid Economics, in collaboration with the CIF Administrative Unit to be explored through the stakeholder interviews and online questionnaire are as follows:

Overall strategic questions

- What do you consider to be the main reasons behind the creation of the set-asides? Do you consider that the set-aside process has been a success/will be successful in furthering the SCF's (FIP's, PPCR's, SREP's) objectives? Why or why not?
- What's the value-added of the set-aside in encouraging the private sector? If not for funding constraints, would/could those projects be developed as part of the country investment plans?
- Has the set-aside received an appropriate allocation of resources to date (both in terms of overall resources and the availability of financial instruments available)? Should additional resources be provided to the set-aside process in the future?
- Should the set-aside allow resources to flow to countries without an SCF investment plan/SPCR?
- Does the set-aside process do enough to facilitate regional projects? Could it and should it do more or less?
- Does the set-aside process do enough to facilitate project funding through domestic financial intermediaries? Could it and should it do more or less?
- Is the set-aside process focussing on projects of the right size? Why or why not?
- [In the case of the FIP, why was there only one round of funding, compared to two for SREP and PPCR? What do you think of this decision?]
- How does the set-aside process differ from the CTF's DPSP? What are the lessons that each process could take from each other? Are there any lessons from the way in which the set-aside process has been organised in one or more program that should be taken into account by the other(s)?
- What are the 3 most important lessons that can be taken from the set-aside process to date?

Process of identifying and selecting projects

Project concept identification

- Is it easy for private sector companies and financial intermediaries to engage in the set-aside process? Why or why not?
- How has information about the opportunity provided by the set-aside been disseminated to date? What role have the MDBs played in generating interest among private sector parties about the set-aside process? Does this differ across MDBs? What role do other parties play? How should this change in future?
- What is your impression of the quantity and quality of the project concepts that have been put forward? Are there any systematic differences between the proposals that have been brought forward by the private sector arms of the MDBs from those coming through the public sector arms? To what extent have the project concepts brought forward aligned with both i) the overall objectives of the program and ii) country-level investment plan/SPCR objectives and principles? To what extent have set-aside proposals learnt from successes and failures in project development from the investment plan process?
- Are there any notable patterns around the projects that are being brought forward (by country, by sector/technology, by MDB)? If so, what may account for these patterns?

- Do you think the claim that MDBs have not tried to develop projects apart from those by stakeholders with whom they have existing relationships (cf. SREP Expert Group report) is valid? If so, what should be done about this?
- Are you confident that, as currently structured, there will be a sufficient pipeline of funding opportunities to sustain the set-aside process at an appropriate level? If not, what should be done to rectify this?

Project selection

- Do you consider that the expert group process has added value? Why or why not?
- Does the current timetable/process of concept development and review by the expert group strike the right balance between ease of access to resources and the development of sufficiently robust concepts to allow effective selection? If not, how might it change? Is the current project concept template fit-for-purpose?
- What role do the MDBs play in supporting the development of project concepts up to and through the discussions with the expert group? Would it be desirable for project developers to be able to go through this process without MDBs?
- Do you think the set-aside process has encouraged, discouraged or had no effect on collaboration between MDBs?
- What are your impressions of the relationship between the MDBs and the expert group? Was the process used during the expert group meetings to seek MDB input and additional information on project concepts sufficient and well timed to enable a complete discussion of concept notes and provide feedback? Should changes be made to the structure of this relationship?
- Who should set the criteria and weights for prioritising projects: the expert group or the Sub-Committees? Are the criteria and weights used in the most recent rounding of funding robust or are changes required?
- How did (or how do you perceive) the expert group reached its decisions? Are the criteria appropriately applied to project concepts? If not, what structural changes would support a more robust application of these criteria?
- Is the time that elapses between the expert committee making its report and the Sub-Committee making its decisions appropriate? Why or why not?
- How do the Sub-Committees make use of the expert group report? Should this change? In cases where the Sub-Committee has made decisions not fully aligned with the recommendations of the expert group, what explains this divergence?
- How did the Sub-Committee (and/or how should it in future) make trade-offs between, for example between innovation and project readiness?
- Did/should the Sub-Committee look at each project on its merits or consider (more fully) portfolio effects e.g. geographic balance, balance between innovation/readiness, different technologies etc.?

Post project selection

- Have projects selected by the Sub-Committees been able to move to the point of MDB-approval and implementation at the pace expected? Why or why not? Are there any changes to the set-aside process that would make the expected pace easier to achieve?
- Are any projects proposed for the set-aside funds but rejected likely to go ahead in any case?

Other

- Are there any models or other precedents of engaging the private sector that the set-aside process should take into account?
- Do you have any final comments or observations?

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Contact us:

The Media Village
131-151 Great Titchfield Street
London W1W 5BB

T: +44 (0)844 8000 254
E: enquiries@vivideconomics.com

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