

# CLIMATE INVESTMENT FUNDS

FIP/SC.13/5  
October 17, 2014

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Meeting of the FIP Sub-Committee  
Washington, D.C.  
November 19, 2014

Agenda Item 5

## **RECOMMENDATIONS BASED ON THE ASSESSMENT OF THE SCF PRIVATE SECTOR SET-ASIDES**

## **PROPOSED DECISION**

The FIP Sub-Committee reviewed document FIP/SC.13/5, *Recommendations based on the Assessment of the SCF Private Sector Set-Asides* and the information document CTF-SCF/TFC.13/Inf.5, *A Review of the Private Sector Set-Asides of the Strategic Climate Fund* and welcomes the findings and measures to further enhance the private sector set-aside mechanism established under the targeted programs of the SCF.

The FIP Sub-Committee agrees to take into account the findings and proposed improvement measures when discussing document FIP/SC.13/6, *Further Elaboration of the Options for the Use of Potentially New Funds under the Forest Investment Program*.

## I. INTRODUCTION

1. The private sector set-aside mechanisms established for the targeted programs under the Strategic Climate Fund (SCF) – FIP, PPCR and SREP - were designed to incentivize private sector engagement in SCF pilot countries in support of low-carbon development and climate resilience development goals.
2. For both SREP and PPCR, two rounds of calls for proposals were conducted resulting in the endorsement of project concepts for further development and CIF funding approval. For FIP, there was only one call for proposals.
3. After completion of the first and second rounds of calls for proposals in the SCF targeted programs, each Sub-Committee requested the CIF Administrative Unit, in collaboration with the MDBs and the pilot countries, to collect lessons and reflections about the effectiveness and value-added of the SCF set aside mechanism and the competitive selection process with a view to drawing lessons for the future<sup>1</sup>.
4. In October 2013, the FIP Sub-Committee requested a paper on lessons learned and an analysis on the effectiveness and value-added of the FIP private sector set-aside to the FIP. Although the FIP Sub-Committee decided not to issue a second call for proposals, the CIF Administrative Unit decided to postpone the FIP set-aside assessment until after the second rounds of the PPCR and SREP set-asides. This enabled the CIF Administrative Unit to conduct a complete assessment of the three SCF private sector set-asides which includes both common and program specific lessons learned.
5. The CIF Administrative Unit commissioned a study, reflecting on the experiences in SCF pilot countries with the use of the set-aside mechanism as a means to incentivize additional private sector operations in the FIP, PPCR and SREP. The report identifies recommendations on how to enhance the mechanisms to attract innovative private sector interventions in each targeted program.
6. Information document CTF-SCF/TFC.13/Inf.5, *A Review of the Private Sector Set-Asides of the Strategic Climate Fund* presents the consultant report completed by VIVID ECONOMICS. Guidance to the consultant team was provided by the CIF Administrative Unit and the MDBs.

## II. SUMMARY OF FINDINGS

7. Overall, the set-aside mechanism was successful in meeting its strategic objectives as it resulted in doubling the number and resource allocation for private sector projects in the SCF portfolios. A number of project concepts were considered to be particularly innovative and of high quality.

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<sup>1</sup> PPCR: *“Procedures for allocating PPCR Resources on a competitive basis from an agreed set aside of resources.”* February 25, 2013, paragraph 17. FIP: *“Procedures for allocating FIP Resources on a competitive basis from a set asides.”* November 28, 2012, paragraph 13. SREP: *Procedures for allocating SREP Resources on a competitive basis from a set asides.”* April 9, 2013, paragraph 15.

8. Shortcomings of the set aside mechanism include a lower than expected number of project concepts submitted to each SCF program and a lower than expected variety of approaches expanding the scope of private sector investments.

9. The assessment paper identifies four key constraints with the current private sector set-aside process:

- a) integration of the set-asides into MDB processes;
- b) geographic restrictions within and on the countries eligible to apply for the set-asides, which has limited the number of high quality projects submitted and accepted;
- c) the terms on which resources are available, and uncertainty over those terms, that has also limited the number and diversity of concepts submitted and;
- d) a lack of awareness and, in some cases, capacity of potential project developers has also proved challenging.

### III. RECOMMENDATIONS TO IMPROVE THE SCF SET-ASIDE MECHANISM

10. Based on the assessment and lessons learned from processing the first ‘calls for proposals’ under the SCF private sector set-asides, the CIF Administrative Unit and the MDBs suggest that the governing bodies of the FIP, PPCR and SREP take into account the following recommendations when considering options for the use of new SCF resources should they become available<sup>2</sup>:

- a) **Establishment of an annual envelope of funding:** this structural change will provide more predictability of funding availability and allow for several dates for concept submission to regularize the timing of the call and allow time sensitive concepts to get endorsement and prevent low quality concepts from premature submission.
- b) **Expanded geographic coverage of concepts eligible for the private sector set-asides within and beyond currently eligible countries:** this will address the challenge of geographic restrictions and result in improved number of high quality projects submitted and accepted.
- c) **Grant funding availability for concept and project proposal development and implementation:** Grants for preparing concepts will help with preparing high quality and innovative proposals. Grants for investments will encourage innovative projects structured in such a way to attract greater private investment through competitive allocation of subsidies.

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<sup>2</sup> The suggested recommendations include variations of incremental measures 1 through 6 and the “compromise approach” under the structural reforms in the CTF-SCF/TFC.13/Inf.5, *A Review of the Private Sector Set-Asides of the Strategic Climate Fund*.

- d) **Place less emphasis on MDB co-finance in evaluating and selecting concepts:** this will also address the difficulties faced in terms of integration of the set-asides within processes of some MDBs.
- e) **Clarify and increase the availability of and local currency loans** and identify the types of project that will be prioritized for its use: this addresses the identified constraint of available resources and terms.
- f) **Consideration of both project and programmatic proposals:** this will also address the difficulties faced in terms of integration of the set-asides within MDB processes and result in improved number of high quality projects submitted and accepted.
- g) **Inclusion of pilot country consultations in establishing country based themes for concepts:** this will help identify a scope for concepts in support of private sector investment and better target developers.
- h) **Enhanced outreach to make the set-aside mechanisms better known in the pilot countries:** this will also help improve the awareness and capacity of developers and increase the country and concept alignment

11. These recommended strategic modifications are elaborated below.

### **Establishment of an annual envelope of funding**

12. Subject to the availability of resources, each SCF Sub-Committee would agree on an annual envelope for the private sector set-aside; at least one fourth of the annual envelope would be available each quarter, and any unendorsed amount of funds would roll-over to the next quarter. Four dates within the year would be established by when concept notes may be submitted for consideration. Once each date has passed, received concepts would be reviewed virtually by an expert group. After consultations with the MDBs, the expert group will prepare the assessment report which will be submitted to the Sub-Committee for a decision by mail or during an inter-sessional meeting of the Sub-Committee held virtually.

### **Expanded geographic coverage of concepts eligible for the private sector set-asides**

13. Various interviewed stakeholders, particularly the MDBs have suggested appropriate geographic expansion to address program specific challenges of geographic restrictions.

14. For SREP, it is suggested to expand the geographic coverage of concepts eligible for the private sector set-asides from the previous eight SREP pilot countries to [all SREP pilot countries including the five previous “reserve” countries and the 14 newly selected SREP pilot countries][all SCF countries].

15. For the PPCR, it is suggested to expand geographic coverage of concepts eligible for the private sector set-asides from all PPCR pilot countries to all [eligible low and lower middle income CIF countries][SCF countries and low and lower middle income CTF countries].

16. For FIP, the discussion on options for the use of potential new FIP resources in June 2014 concluded that the geographic coverage should remain limited to the current eight FIP pilot countries.<sup>3</sup>

### **Grant funding availability for project proposal development and implementation**

17. The financial envelope for the future private-sector set-asides should provide for a mix of grants (for technical assistance, advisory services, investments) and concessional finance (loans, equity, and guarantees) consistent with the *Financing Modalities* of the relevant SCF targeted program.

18. A small portion of grants should be made available for the development of concept notes and the further development of the projects and programs once the concept has been endorsed. For example, grants for developing concept notes could be used for a cost benefit analysis that a) would demonstrate the value of the investment, b) support market studies to get a reliable indication of demand before submitting the concept note.

### **Place less emphasis on MDB co-finance in evaluating and selecting concepts**

19. It is suggested that MDB co-financing will not be a requirement for selection. Co-financing may include other co-financing sources from private sector entities, including financial intermediaries and the potential for replicability and indirect leverage.

### **Clarify and increase the availability of local currency loans**

20. Local currency loan availability on a project by project basis in the SCF needs to be confirmed when allocating new SCF resources to the set-aside mechanism. MDBs will be able to submit local currency concepts when appropriate and clarify availability in outreach materials.

### **Consideration of both project and programmatic proposals:**

21. Support for programmatic concept proposals covering a theme in a country or region that may have subsequent sub-projects should also become eligible for consideration under the SCF. The CTF private sector programs and DPSP<sup>4</sup> are already testing programmatic proposals with promising results.

### **Inclusion of pilot country consultations in establishing country based themes for concepts**

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<sup>3</sup>Approved Decision on Options for the Use of Potential New Funds Under the FIP (SC Meeting June 28, 2014).

<sup>4</sup>Dedicated Private Sector Programs Proposal for Phase II. (CTF/TFC.13/5)

22. For interested eligible CIF countries, the MDBs with support from the CIF Administrative Unit will facilitate a consultation process to agree on country-specific themes for the “call for proposals”, if appropriate.

23. A consultation process would take place with interested eligible pilot countries’ CIF/SCF targeted program focal points to agree and articulate country-specific theme(s) which are consistent with national priorities and enabling environment conditions.

#### **Enhanced outreach to make the set-aside mechanisms better known in the pilot countries**

24. Resources for outreach and awareness will continue to be available under the CIF Administrative Budget. These resources can be used by MDBs for outreach and awareness activities on the set-aside mechanism in the eligible pilot countries. Such resources are to be approved by the relevant MDB Committee.

#### **Additional incremental process changes recommended by the CIF Administrative Unit and the MDBs and supported by the set-aside analysis include:**

- a) expert group members need to have operational experience with the private sector;
- b) the same experts should remain group members throughout the year;
- c) private sector set-asides webpages should be updated and improved e.g. presenting more clarity about eligibility requirements to improve the awareness and understanding of the set-aside mechanisms among developers; and
- d) additional time for expert group review should be allowed; especially sufficient time for the concept discussion with the MDBs.

25. Decisions and papers specific to each SCF targeted program are summarized below.

#### **IV. SREP**

26. While there was no decision during the meeting of the SREP Sub-Committee in June 2014 regarding potential future SREP private sector set-aside rounds, the Sub-Committee did “take note of the challenges and lessons learned in the implementation of the current modalities of the set-aside program and looks forward to a fuller discussion at its meeting in November 2014 based on the assessment of the SCF set-asides currently under preparation”<sup>5</sup>.

27. Should additional resources become available, and if the SREP Sub-Committee prioritizes the use of new resources for another round of calls of proposals under the SREP set-aside, then the recommendations presented should be taken into account by SREP Sub-Committee.

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<sup>5</sup> Summary of the Co-Chairs Meeting of the SREP Sub-Committee June 27, 2014 (Agenda Item 7).

## V. PPCR

28. At its meeting in June 2014, the PPCR Sub-Committee reviewed document PPCR/SC.14/4, *Options for the Use of Potential New Funds under the PPCR*, and agreed to the further development of the option to demonstrate and further incentivize innovative private sector investments in climate resilience and adaptation in current PPCR pilot countries and by expanding private sector activities to low and lower middle income<sup>6</sup> CIF countries and recognizing the need for appropriate technical assistance, training, and country engagement in existing PPCR countries and other low income countries.

29. Document PPCR/SC.15/6 *Procedures for an Expanded PPCR Set-Aside to Incentivize Innovative Private Sector Investments in Climate Resilience and Adaptation* responds to the request and presents a modified PPCR private sector set-aside process consistent with the recommendations of the set-aside assessment.

## VI. FIP

30. At its last meeting in June 2014, the FIP Sub-Committee reviewed document, FIP/SC.12/7, *Options for the Use of Potential New Funds under the FIP*, and agreed that in consultation with Sub-Committee members and pilot countries, options 1 (Selection of new FIP pilot countries), option 2 (A dedicated set-aside of funds to address emerging issues related to REDD+ and/or close strategic gaps identified in the FIP portfolio, including a second round incentivizing innovative private sector investments) and option 3 (Additional resources to existing FIP pilot countries) should be further elaborated.

31. Document FIP/SC.13/6, *Further Elaboration of the Options for the use of Potentially new Funds under the Forest Investment Program*, responds to this request. Option 2 presents a modified set-aside mechanism for the FIP taking into account the assessment findings and other FIP portfolio considerations.

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<sup>6</sup> Based on World Bank country classification by income (<http://data.worldbank.org/about/country-and-lending-groups>)