

CLIMATE INVESTMENT FUNDS

SREP/SC.7/7
April 17, 2012

Meeting of the SREP Sub-Committee
Washington, D.C.
May 1, 2012

Agenda Item 8

PROPOSAL FOR SELECTING PROJECTS FOR FUNDING FROM THE SREP RESERVE

Proposed Decision by SREP Sub-Committee

The Sub-Committee reviewed document SREP/SC.7/7, *Proposal for Selecting Projects for Funding from the SREP Reserve*, and approves the proposed criteria and procedures for developing projects to be funded from the reserve. The Sub-Committee agrees that it will consider proposals developed in accordance with these procedures at its meeting in May 2013. The Sub-Committee underscores the importance of using the reserve to diversify the SREP portfolio, and in particular, to encourage greater engagement and financing of private sector activities and/or to pilot the use of innovative financing approaches such as results based financing.

I. INTRODUCTION

1. At its meeting in November 2011, the Sub-Committee agreed to revisit the process to be followed for selecting projects or programs to be funded from the reserve at its meeting in May 2012 with a view to deciding on the projects or programs to be funded at its meeting in November 2012.

2. This note has been prepared by the CIF Administrative Unit in consultation with the MDBs. It draws from the *Revised Proposal for Criteria for the Allocation of the Fund Reserve under SREP* (document SREP/SC.6/9), which was reviewed by the Sub-Committee at its meeting in November 2011.

3. It should be recalled that the SREP reserve was established in November 2010 initially at US\$60 million based on the pledges at the time. Of this amount, US\$50 million has been set aside to fund projects or programs from the first six SREP pilot countries: Ethiopia, Honduras, Kenya, Mali, Maldives, and Nepal. The Sub-Committee also agreed in November 2011 that no more than three projects and no more than one project per investment plan should be funded from the initial reserve.

II. PROPOSED PROCESS OF SELECTING PROJECTS FOR FUNDING FROM THE SREP RESERVE

Criteria

4. At its meeting in November 2011, the SREP Sub-Committee agreed that the following criteria should guide the allocation of resources from the reserve for project and program proposals:

- a) readiness to effectively absorb additional resources;
- b) country ownership;
- c) project design in terms of engaging and leveraging investment of the private sector;
and
- d) utilizing diverse and innovative approaches and instruments.

5. *Readiness.* Demonstration of readiness to absorb additional resources is considered a prerequisite for accessing the SREP reserve. One indicator of readiness is progress in developing and implementing projects and programs foreseen in a country's investment plan. In this regard, it is proposed that a pilot country requesting funding from the SREP reserve should have at least [30] [50] percent of the indicative funding allocation to its endorsed investment plan approved by the Sub-Committee at the time of submission of the proposal to request funding from the SREP reserve. Qualitative information on readiness should also be provided in the project proposal.

6. *Country ownership.* Timely delivery of high quality investment plans and projects may be seen as an indication of a country's interest in the SREP program and its commitment to maximize the use of additional SREP funding. Furthermore, under the procedures proposed in this paper, a country would be responsible for submitting proposals to the Sub-Committee for consideration of funding from the reserve. Such submission would be an affirmation of the country ownership of the investment plan and its support for the project.

7. *Project design.* The project proposal should demonstrate significant engagement of the private sector and/or utilization of diverse and innovative approaches and instruments. Given the significant role the private sector can play in bringing expertise and finance to scale up renewable energy investments in SREP pilot countries, it is imperative to incentivize the private sector to participate in, and deliver SREP projects and programs. Judging from the investment plans that have been endorsed to date, the opportunity to develop projects through the private sector arms of the MDBs has not been optimally utilized, and the reserve provides an added incentive to develop and finance such projects.

8. Qualitative information on engagement of the private sector in the project during development and implementation and how such engagement would support the transformational objectives and programmatic goals of the investment plan should be provided in the project proposal. The ratio of SREP funding to the amount of private sector investment to be leveraged by the project would also be an important consideration.

9. Given that the SREP is a pilot program aimed at generating lessons and exploring new approaches for scaling up the use of renewable energy, it is desirable that diversity in approaches, financing instruments and delivery mechanisms be achieved at the portfolio level taking into account the collection of projects and programs to be funded in the six pilot countries. The Sub-Committee has expressed, for example, a growing interest in demonstrating and testing results based financing. Priority should be given to both public and private sector proposals that utilize innovative approaches and instruments and that provide diversity to the financing instruments and approaches used in the overall SREP portfolio.

Process for Submitting and Selecting Projects

10. Project concepts seeking funding from the SREP reserve may be developed by any stakeholder and should be submitted to the national SREP focal point and the relevant MDBs engaged with the government on the development of the SREP investment plan. The government and the MDBs should assess the submitted concepts taking into account the agreed criteria. They should consult to agree on which proposal(s) to submit to the Sub-Committee for consideration and which MDB would be responsible for supervising the further development and implementation of the project concept(s). It is proposed that no more than three proposals could be submitted by a single pilot country.

11. Once agreement has been reached at the country level as to which proposal(s) should be submitted to the Sub-Committee, the national SREP focal point should inform all proponents of the status of their proposals.

12. Four weeks prior to the SREP Sub-Committee meeting, the national SREP focal point (or the MDBs on behalf of the national SREP focal point) should submit the agreed proposal(s) to the CIF Administrative Unit. In requesting approval of the proposal, the normal procedures regarding requests for grants for project preparation and MDB project preparation and supervision services would apply.

13. The CIF Administrative Unit will compile the proposals that it receives for review by the Sub-Committee. At the Sub-Committee meeting, the national SREP focal point or a designated representative may make a presentation to the Sub-Committee. The Sub-Committee will be invited to review and select proposals for further development, together with an indicative allocation of resources to the project and approval of funding for project preparation by the project proponent and budget for the implementing MDB.

14. Further development of the proposal and implementation of the project will be in accordance with the established SREP procedures.

Level of SREP Reserve Funding

15. The SREP reserve was established in November 2010 initially at US\$60 million based on the pledges at the time. Of this amount, US\$50 million has been set aside to fund projects or programs from the first six pilot countries. The Sub-Committee also agreed in November 2011 that no more than three projects and no more than one project per investment plan should be funded from the initial reserve.

16. The above decisions suggest three possible scenarios for the use of the current SREP reserve: (a) if only one project is selected (from one of the six pilot countries), the level of SREP funding for the one project could be up to US\$50 million; (b) if two projects (from two of the six pilot countries) are selected, the average size of the SREP funding per project could be up to US\$25 million; (c) if three projects are selected (from three of the six pilot countries), the average size of the SREP funding per project could be up to US\$16.7 million.¹

17. If additional pledges are made to the SREP reserve for the first six pilot countries, more projects and programs may be financed through the reserve in these countries. If more funding is made available, the Sub-Committee may wish to reconsider the “three projects/one project per country” ceilings.

18. Alternatively, in order to provide more flexibility for the countries and the Sub-Committee, the Sub-Committee may wish to consider replacing the agreed ceilings on number of projects and one project per country with a recommendation as to the expected average size of the SREP funding request (in the range of US\$15-30 million) thereby signaling the goal of providing funding for investments at scale.

Timing of Funding Decisions

¹ An SREP project or program may involve more than one MDB.

19. The Sub-Committee agreed in November 2011 to revisit the process to be followed for selecting projects or programs to be funded from the reserve at its meeting in May 2012 with a view to deciding on the projects or programs to be funded at its meeting in November 2012. The Sub-Committee had also agreed in November 2010 that funding from the reserve may be allocated to projects in the investment plans once the investment plans for all six pilots have been endorsed.

20. Given the current status that one investment plan (for Maldives) is yet to be submitted for endorsement and that only one project has been approved for SREP funding and few are scheduled for submission before November 2012,² the Sub-Committee may wish to postpone the decision on selecting projects or program for funding from the SREP reserve for the first six pilot countries until May 2013 so that all six pilot countries will have the opportunity to demonstrate readiness and progress in implementing their investment plans.

III. SREP FUNDING RESERVE FOR ADDITIONAL PILOTS

21. At the intersessional meeting in March 2012, the Sub-Committee, in approving the prioritization of additional pilots on the SREP reserve list, agreed that it would be useful if additional funds could be mobilized for funding a “challenge” reserve to finance projects and programs above the indicative allocations for the additional pilots in accordance with criteria agreed by the Sub-Committee.

22. If additional funds are mobilized for a reserve to finance projects and programs above the indicative allocations for the six additional pilots, the Sub-Committee may wish to consider utilizing the same criteria and process as proposed in Section II of this document.

² According to the proposed project approval calendar for FY13 (*Semi-Annual Report on SREP Operations*, document SREP/SC.7/4), only two projects totaling US\$2.8 million will be submitted to the Sub-Committee for funding approval before November 2012.