Climate Investment Funds

SCF/TFC.11/3
April 21, 2015

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

Agenda Item 3

Proposal for Strategic Climate Fund Private Sector Facility

PROPOSED DECISION

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

The SCF Trust Fund Committee approves the establishment of the SCF Private Sector Facility as a new SCF Program, including its scope, objectives and eligibility criteria governing the use of the resources under the SCF Private Sector Facility. Pursuant to the terms of the SCF Governance Framework Document, it is proposed for the SCF Trust Fund Committee to serve as the SCF Sub-Committee for the Facility. The CIF Administrative Unit, working with the MDBs, will accordingly submit the relevant program documents necessary to operationalize the SCF Private Sector Facility for approval by the SCF Trust Fund Committee.

I. INTRODUCTION

1. Across the Climate Investment Funds (CIF), US$2.4 billion (or about 30% of US$8.1 billion total CIF funding) is designated for projects that aim to stimulate private sector participation. The CIF anticipates that approximately US$20 billion in co-financing (or 35% of US$57 billion total CIF co-financing) will come from the private sector. The CIF employs three financing vehicles: US$1.7 billion allocated for private sector projects specified in CIF investment plans; US$508.5 million allocated through the Clean Technology Fund (CTF) Dedicated Private Sector Programs (DPSP) designed to achieve scale and speed in response to market demand; and US$200 million allocated through the private sector set-asides of the Strategic Climate Fund (SCF), including the Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR), and Scaling-Up Renewable Energy in Low Income Countries Program (SREP), which were designed to spur innovation and flexible delivery.

2. Barriers to private sector investments in the current set of SCF pilot countries vary across sectors and countries depending on their development phase and sophistication of the private sector. The common barriers include: (a) limited access to finance due to financial institutions' lack of knowledge on climate risks and the opportunities to finance adaptation, and the limited availability of co-financiers due to higher risk and lesser-developed financial markets in low-income countries, (b) lack of scale and limited role of the private sector in many SCF countries' economies, and limited appropriate infrastructure, (c) lack of appropriate policies and regulatory frameworks resulting in an unfavorable investment environment for private sector development, combined with low in-country technical and financial capacities (for businesses and financiers), and (d) the value proposition of investments in adaptation and forestry for example is not fully understood yet by the private sector, combined with the lack of financial incentives for the private sector to explore and test out innovative approaches.

3. Since its inception, the CIF has put significant emphasis on addressing these barriers through technical assistance focused on capacity building and policy reform, and introduction of financial solutions through innovative funding mechanisms and financial instruments tailored to mitigate associated risks and barriers.

II. BACKGROUND

4. Acknowledging the importance of the private sector's role in achieving transformative change in the SCF's programs through implementation of innovative technologies, innovative business models and sustainable supply chains, and driven by a strong commitment to enhance the private sector participation, the SCF's Sub-Committees for the FIP, PPCR, and SREP agreed that FIP, PPCR and SREP resources should be set aside to provide funding to private sector operations as a way of promoting innovative approaches to engaging the private sector and increasing the number of high quality proposals through the private and public sector arms of the multilateral development banks (MDBs). This commitment was translated into a proposal for a new mechanism to set aside respective FIP, PPCR, and SREP resources to be allocated to projects selected on a competitive basis for private sector operations.[1]

[1] Document "Procedures for Allocating FIP Resources on a Competitive Basis from a Set Aside" approved in February 2012, document "Procedures for Allocating Resources on a competitive Basis from an Agreed Set Aside of Resources" approved in

5. The CIF Administrative Unit and the MDBs have jointly completed multiple calls for proposals under the existing set-aside mechanism in FY2013 and FY2014: one round for the FIP and two rounds for the PPCR and SREP. Under these two rounds of set aside processes, there has been a total funding allocation of about US$203 million in all three programs, corresponding to a pipeline of 24 endorsed project concept proposals. To date, four projects have received funding approval, totaling US$35.5 million from the FIP, PPCR, and SREP Sub-Committees and corresponding to 17% of the total number of projects and overall volume of available funding. The remainder are projects under development by the MDBs. Table 1 summarizes the funding allocation of each set-aside under the SCF.

Table 1: Summary Funding Allocation under the FIP, PPCR, and SREP Set-Asides (Million US$)

Set Asides	FIP	PPCR	SREP	Total
Round I	35.3	40.85	59.60	131.75
Round II	--	34.50	32.80	67.30
Total	**35.3**	75.35	92.40	203.05

6. An additional US$50 to US$80 million funding envelop was authorized by the PPCR Sub-Committee in November 2014 for a third PPCR set-aside round with the anticipation of launching two calls for project proposals in mid-June and mid-December 2015.[2]

7. A "Review of the Private Sector Set-Asides of the Strategic Climate Fund" was requested by all three SCF Sub-Committees[3] in their meetings in February 2013, with the view of assessing the effectiveness of the private sector set-asides and sharing lessons from engaging the private sector with their respective Sub-Committees and external stakeholders.

8. The review was delivered by an independent consulting firm at the November 2014 CIF meetings. It highlighted that while the first two rounds of the set-aside processes nearly doubled the pipeline of private sector projects under the FIP, PPCR and SREP, both in number and volume, and encouraged innovation in several proposals, gaps and limitations existed in the approach. It also suggested that it may be inadequate to fully address the untapped potential of the private sector at a larger scale in the context of the SCF pilot countries. These limitations are related to several factors, including:

a) Scale of available funds (US$31.30 million for the FIP, US$73.35 million for the PPCR, and US$92.4 million for the SREP);

February 2013, and document "Procedures for Allocating FIP Resources on a Competitive Basis from a Set Aside" approved in April 2013.

[2] Document "Procedure for an Expanded PPCR Set-Aside to Incentivize Innovative Private Sector Investments in Climate Resilience and Adaptation", approved January 2015.

[3] Document "Procedures for Allocating FIP Resources on a Competitive Basis from a Set Aside", paragraph 13, approved in November 2012, document "Procedures for Allocating PPCR Resources on a Competitive Basis from an Agreed Set Aside of Resources", paragraph 17, approved in April 2013, and document" Procedure for Allocating SREP Resources on a Competitive Basis from an Agreed Set Aside of Resources" paragraph 15, approved in April 2013.

b) Misalignment between the delivery mode dictated by the set-aside procedures (the rigidity of the timing of the calls for proposals and their short time frame compared to having an open window for available funding for project proposals as they become ready for submission) and the modus operandi of the private sector; and

c) The limited geographic coverage by each SCF program.

9. As a result, the number, size and quality of proposals were not as high as it may have been under more flexible funding arrangements. "Recommendations Based on the Assessment of the SCF Private Sector Set-Asides" were welcomed by the PPCR Sub-Committee in its meeting in October 2014.

10. In addition to the "Review of the Private Sector Set-Asides of the Strategic Climate Fund," the CIF Private Sector Working Group has been reviewing and monitoring results and exploring optimum scenarios under which the CIF could capture the lessons learned from the SCF's set-aside processes and the CTF's DPSP. From the review, it has become apparent that barriers to scaling up private sector financing under the SCF programs exist across the spectrum of low and middle income countries with a greater acuity in the former. To achieve a larger scale of private sector financing in these countries, it is necessary to: (a) provide funding at scale and with flexibility, (b) leverage synergies across SCF countries and programs (adaptation, mitigation and forests), (c) allow regional investments and South-South collaboration and cross fertilization, and (d) improve funding procedures to align them with the modus operandi of the private sector.

Box 1: CTF Dedicated Private Sector Program

The DPSP under the CTF was created to finance operations that can achieve large projects rapidly, while maintaining country priorities. It offers technology windows that allow for regional synergies and scale.

To provide funding at scale within timelines more compatible with private sector needs, the CTF Trust Fund Committee in April, 2013 approved a proposal for a new CTF delivery mechanism, *the Dedicated Private Sector Programs,* along with the first two of four program proposals: Utility Scale Renewable Energy, with an initial focus on utility scale geothermal (US$115 million), and Renewable Energy Mini-grids and Distributed Power Generation (US$35 million). An additional US$330 million made a second phase possible (DPSP II), and in June 2014, the CTF Trust Fund Committee approved six new program proposals.

Using a programmatic approach, the MDBs collaboratively identify and propose private sector opportunities for funding. To date, US$508.5 million has been approved by the CTF Trust Fund Committee for DPSPs under six thematic areas: geothermal power, mini-grids, mezzanine finance, energy efficiency, solar photovoltaic power, and early stage renewable energy. Within each area, the MDBs are developing sub-programs and projects.

III. PROPOSAL FOR SCF PRIVATE SECTOR FACILITY

Funding Scale and Term

11. Taking the aforementioned factors into consideration, it is proposed to establish a SCF Private Sector Facility ("SCF PSF", or the "Facility") as a private sector dedicated sub-program of the SCF that addresses challenges faced under previous set-asides mechanism and that allow for greater scale, flexibility and market response.

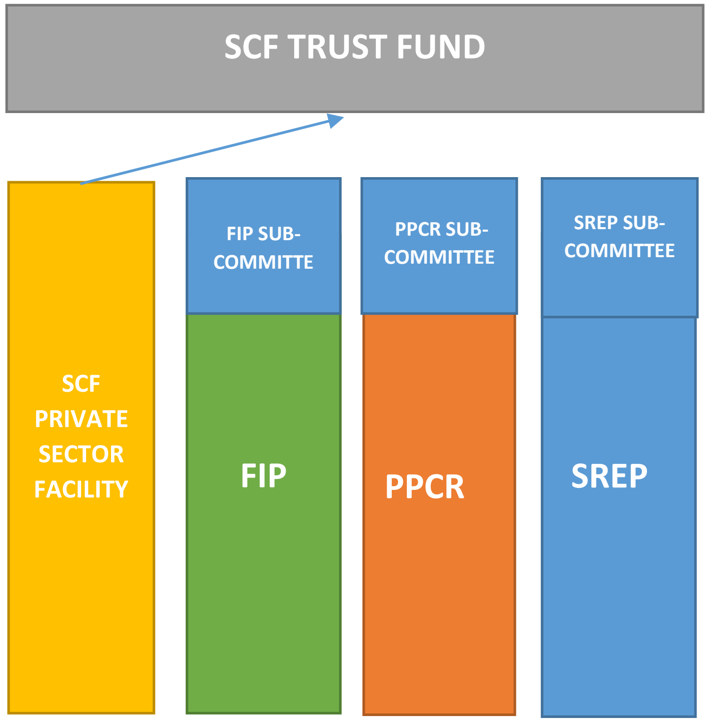
12. This will require establishing a new standalone sub-program under the SCF that will be dedicated to serve the mandate of the private sector under the FIP, PPCR and SREP. It will report to the SCF Trust Fund Committee. The following steps would need to be undertaken in order to establish the SCF PSF:

a) The MDBs will review the endorsed private sector set-aside programs under the PPCR and FIP and identify projects that would be recommended for removal from the existing pipelines. Based on the recommendation by the MDBs, respective Sub-Committees will endorse the revised set-aside programs.

b) Based on this revised pipeline of projects, the Trustee will calculate the available amount of freed-up resources in the set-aside programs of the PPCR and FIP, broken down by types of contributions, to be transferred to the SCF PSF. The respective Sub-Committees will approve the transfer of such resources.

c) The SCF Trust Fund Committee will approve the establishment of the Facility as a new SCF Program, including its scope, objectives and eligibility criteria governing the use of the resources under the Facility. Pursuant to the terms of the SCF Governance Framework Document, it is proposed for the SCF Trust Fund Committee to serve as the SCF Sub-Committee for the Facility (see Figure 1). The CIF Administrative Unit, working with the MDBs, will accordingly submit the relevant program documents necessary to operationalize the Facility for approval by the SCF Trust Fund Committee.

Figure 1: Proposed <u>SCF Reporting Structure</u>



13. The Facility is proposed to start with a capitalization of about US$100 million of investment for climate resilience, forestry and renewable energy. It is expected that the endorsed concepts removed from the existing pipeline of the FIP and PPCR set-asides would free up around US$20 million in resources to be transferred to the Facility. In addition, expected envelopes of around US$50 to US$80 million for the third round of the PPCR set aside may also be transferrable to the Facility. Given that lack of scale on funding availability is one of the key constraints of private sector engagement under the SCF, it is important to ensure a higher level of capitalization as soon as possible in order to achieve the objective of the proposed Facility. As a dedicated sub-program of the SCF, the contributor countries may provide new contributions to the Facility similarly as to how contributions are provided to the existing SCF sub-programs.

14. The FIP, PPCR and SREP set-asides continue to co-exist, and any of the endorsed project concept proposals to date will be developed according to the existing procedures under respective SCF programs and their project proposals will be submitted to each SCF Sub-Committee for approval. Given the urgent need for a higher level of capitalization of the Facility, a mechanism for future fund transfer from the SCF is envisaged. Each SCF Sub-Committee is requested to consider if it would support establishing a mechanism to automatically transfer its resources to the Facility when its set-aside resources subsequently become available as a result of removal of any of its endorsed project concept proposal or cancellation of any of its approved project from its set-aside pipeline.

Objectives

15. The purpose of the SCF Private Sector Facility evolves around promoting innovative private sector investments and supporting private sector projects to meet the SCF objectives under the FIP, PPCR and SREP. Its objectives are primarily to provide:

a) *Larger scale*: The Facility will have a larger pool of funding. This will lead to a better perception and signal to private sector companies as to the available scope of funding and the access to more eligible countries with potential cross cutting business synergies in terms of technology and investment flows.

b) *Improved SCF offering*: The Facility will make the SCF offering more attractive to private sector investors through flexible procedures that are better suited to the way project developers and investors undertake their investments, including a shorter timespan between project proposal submissions and approvals, and lower transaction costs due to scale.

c) *Improved market response*: The flexible Facility structure and its scale will allow a faster response to demand and business opportunities in SCF countries and potentially lead to more innovation and scale up.

d) *Improved scope for project development*: A larger pool of countries and the feasibility of cross cutting access among the three existing SCF Programs will result in greater potential for robust deal flows.

Facility Structure and Funding Parameters

16. Funds available under the Facility will constitute a common co-mingled pool of funding available for private sector projects with the objectives consistent with the FIP, PPCR and SREP on an on-going "first come, first served" basis.

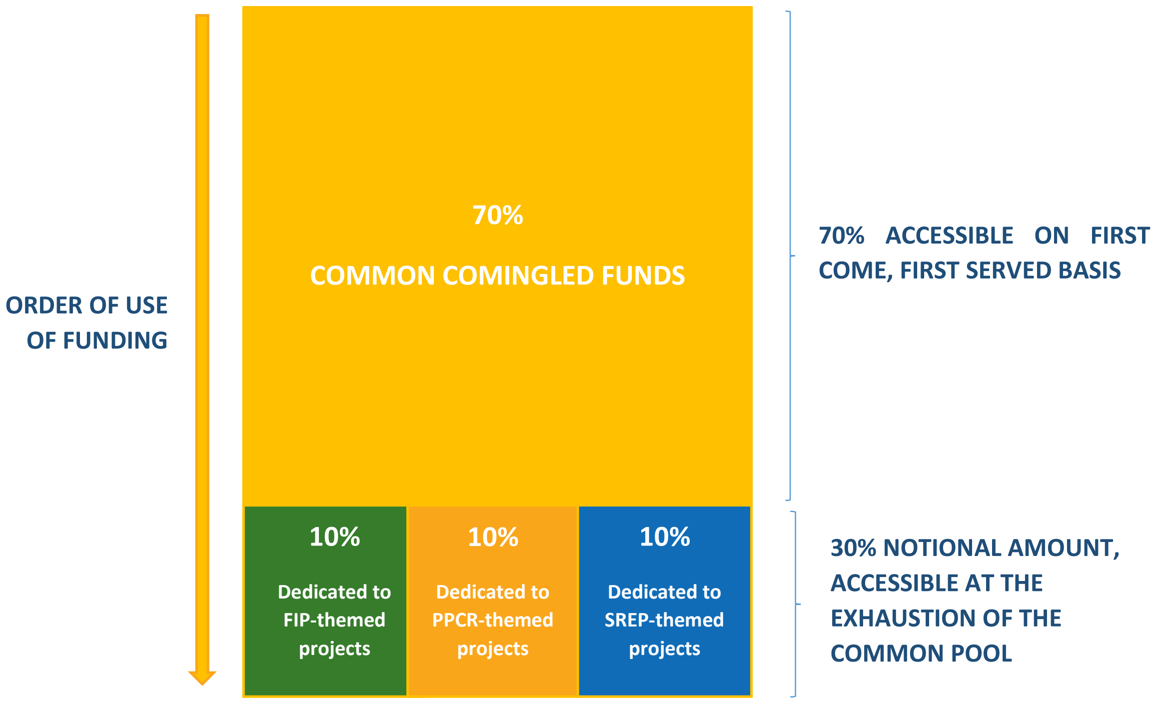
17. Three additional parameters are proposed to ensure relevance and balanced access to funding by each of the three programs (see Figure 2).

a) Measure 1: A notional amount capped at [30%] will be designated and divided equally at [10%] each to allow a minimum commitment to each of the themes of the existing SCF Programs, guarantee balanced allocation of funds among them, and hedge against the risk of the theme of one program using the majority of funds at a faster pace, while the theme of other programs might need longer periods for deal origination and project development. Once the common funds have been exhausted, the designated amount can be accessed only by countries that are pilot of the specific SCF program.

b) Measure 2: The funding allocation to project proposals under any one of the themes in the existing three SCF Programs must not exceed 50% of the total funding available under that Facility.

c) Measure 3: Funding through the MDBs' public sector arms will be capped at 25% of the total funding available under the Facility.

Figure 2. Proposed SCF Private Sector Facility Structure



Country Eligibility

18. It is proposed that country eligibility be structured as follows:

a) Low income SCF countries can apply for funding aligned with the objectives of any of the SCF programs

b) Middle income countries, including upper middle income countries in SCF can apply for funding aligned with the programs they are already part of and to climate resilience and adaptation type of investments

c) CTF countries can apply for funding for climate resilience and adaptation type of investments

19. This broader range of eligible countries is essential to achieve a higher level of private sector investments as well as to test and demonstrate viability of investments from private sector in adaptation. (See Annex 1: List of Eligible CIF countries under the SCF Private Sector Facility).

20. While low income countries will be able to access resources in the form of grants and concessional finance, middle-income countries will only be allowed to access non-grant resources.

Governance and Governing Investment Criteria

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

Policy Framework for Projects Supported under SCF Private Sector Facility

22. For the FIP: All decisions on policy, funding and use of financial instrument related to the FIP under the SCF Private Sector Facility need to be consistent with the *FIP Design Document*, the *FIP Operational Guidelines* and *the FIP Investment Criteria and Financing Modalities.*[4] (See Annex 3: Criteria for FIP Investment Strategies, Programs and Projects)

23. For the PPCR: All decisions on policy, funding and use of financial instrument related to the PPCR under the SCF Private Sector Facility need to be consistent with the *PPCR Design Document*, the *Programming and Financing Modalities for the PPCR* and the PPCR Financing Modalities.[5] (See Annex 4: Principles for Using PPCR Funds in Private Sector Investments)

24. For the SREP: All decisions on policy, funding and use of financial instrument related to the SREP under the SCF Private Sector Facility need to be consistent with the SREP Design Document, the SREP Programing Modalities and Operational Guidelines and the *SREP Financing Modalities*. [6] (See Annex 5: Principles for Using SREP Funds in Private Sector Investments)

25. Furthermore, in the absence of endorsed investment plans in eligible countries for the SCF PSF, where applicable, proponents would need to present a relevant national programming context such as an approved National Adaptation Plan of Action (NAPA), a National Plan on Adaptation (NAP), national REDD readiness strategy plans or an equivalent national-level climate policy or plan.

Value Proposition

26. There are numerous benefits associated with the proposed SCF Private Sector Facility, including the following:

a) *Marketable approach to private investors and project developers*: The proposed Facility structure, purpose and larger total envelop of funding, send a stronger

[4] https://www.climateinvestmentfunds.org/cif/keydocuments/FIP
[5] https://www.climateinvestmentfunds.org/cif/keydocuments/PPCR
[6] https://www.climateinvestmentfunds.org/cif/keydocuments/SREP

signal of commitment to the private sector. Furthermore, it will enable the emergence of new business models via cross-cutting projects that support multiple program objectives. The private sector looks at climate-smart projects in general and does not always distinguish between the FIP, PPCR, or SREP and their separate funding "pots."

b) *Benefits of scale and wholesale approaches*: The Facility will allow larger scale funding for individual projects, if needed, to better align market requirements and to mainstream MDB operations and internal policies. It will also allow regional facilities with wholesales approaches and efficient cost structures.

c) *Demand driven approach to climate finance*: The proposed Facility emphasizes a demand-driven approach rather than a top down, supply-driven one. In other words, there will be no fixed targets per SCF program theme, beyond the percentage caps to ensure the minimum allocation to each theme under the SCF Programs. This will provide for a healthier and stronger fund and pipeline management.

d) *Harmonized SCF outreach and engagement strategy and cost effectiveness of business development*: The proposed Facility will enable harmonized and cost-effective business development and deal origination efforts by the MDBs. It also facilitates a cohesive and overall SCF-focused private sector outreach and engagement strategy for the CIF Administrative Unit and the MDBs.

e) *Higher SCF leverage ratio from private sector*: Given the flexible structure, the feasibility of cross-cutting projects among the three areas, and a flexible funding size per project, it is expected that the Facility will achieve higher co-financing ratios from private sector sources, including the MDBs.

f) *Efficiency gain*: A consolidated structure would increase operational efficiencies and lower costs by running one facility instead of three set aside processes. Consequently, it will eventually remove barriers due to transaction costs and will enable increased mobilization of resources and breaking down the silo effect of the set-aside processes.

IV. ELIGIBILITY CRITERIA

27. The following eligibility criteria would be applied to all future project proposals submitted to the SCF PSF for funding approval.

a) Project proposals must meet the objectives and satisfy the criteria of at least one of the three existing SCF programs (FIP, PPCR and SREP). (See Annex 2: Common Format for Project Proposals for the Use of Resources from the SCF Private Sector Facility)

b) Projects should comply with the country's national climate change plans and strategies, if available, or other equivalent national level plans or strategies.

c) Programmatic proposals covering a theme in a country or a region will be eligible for consideration under the Facility.

d) The SCF PSF resources will be made available to private sector clients working through the MDBs private sector arms, or through the MDBs public sector arms, which would benefit private sector recipients through allocation of concessional financing to private sector entities, public-private partnerships or results-based finance. Funding through the MDBs public sector arms will be capped at 25% of the total funding available under the Facility.

e) Leveraging resources beyond the SCF PSF is important and therefore co-financing from the MDBs is required. Exceptions are allowed but would need to be well articulated in the project proposal. They could be justified based on the level of innovation of the projects and the strong commitment from the MDBs to mobilize additional funding from private sector sources.

V. PROCEDURES FOR APPROVAL OF PROJECTS AND PROGRAMS PROPOSALS

Procedures

28. The following procedures will be followed to select project and program proposals to be funded under the SCF Private Sector Facility:

a) Further to the approval of establishing the SCF Private Sector Facility by the SCF Trust Fund Committee, the CIF Administrative Unit and the MDBs will undertake an outreach and a promotion campaign for the Facility and its execution modalities among eligible countries aimed at developing a strong pipeline of projects.

b) Project and program proposals and project concepts should be submitted by an MDB to the CIF Administrative Unit.

c) The CIF Administrative Unit will submit the proposal to the SCF Trust fund Committee for approval in line with its current procedures for approval by email.

d) If any of the MDBs wishes to submit proposals for project concepts to the SCF Trust Fund Committee prior to developing them at a full scale, they have an option to submit a concept note for the endorsement by the SCF Trust Fund Committee for further development of projects. Following the endorsement of the project concept, the concerned MDB will have a period of up to 9 months to submit the project proposal for approval by the SCF Trust Fund Committee.

e) If any of the MDBs wishes to submit proposals for programs for endorsement by the SCF Trust Fund Committee, they have an option to do so for further development of sub-projects under a program. Following the endorsement of the program, the concerned MDB will have a period of up to 9 months to inform the SCF Trust Fund Committee about the approval of the full envelope of the program at the sub-projects level by the MDB Board.

f) The CIF Administrative Unit will maintain a record of project pipeline (including endorsed concepts and programs) as well as approved projects under the Facility.

Information Sharing and Outreach

29. Information on the SCF PSF and the agreed procedures, including a common format for presenting project proposals, will be made available through a dedicated page on the CIF's website and, as appropriate, on the websites of the MDBs.

30. An outreach strategy will cover the following:

a) The CIF Administrative Unit, in collaboration with the MDBs will inform all eligible SCF countries of the opportunity to access the SCF PSF's funding and share the information on how to access the resources, including the procedures, eligibility criteria and assessment criteria.

b) The MDBs, supported by the CIF Administrative Unit as needed, will facilitate information sharing and awareness raising on the SCF PSF, including organizing information sessions, webinars and video conferences as needed.

Annex 1: List of Eligible CIF Countries under the SCF Private Sector Facility

SCF Countries

Country	CIF Program	World Bank Country Classification by Income	Comment
Armenia	SREP	Lower-middle-income	Endorsed Investment Plan (IP)
Bangladesh	PPCR/ SREP (New)	Low-income	Endorsed SPCR; New SREP country (no IP)
Benin	SREP (New)	Low-income	New SREP country (no IP)
Bolivia	PPCR	Lower-middle-income	Endorsed SPCR
Brazil	FIP	Upper-middle-income	Endorsed IP
Burkina Faso	FIP	Low-income	Endorsed IP
Cambodia	PPCR/ SREP (New)	Low-income	Endorsed SPCR; New SREP country (no IP)
Congo, Dem. Rep.	FIP	Low-income	Endorsed IP
Dominica	PPCR	Upper-middle-income (SIDS)	Endorsed SPCR
Ethiopia	SREP	Low-income	Endorsed IP
Ghana	FIP/ SREP (New)	Lower-middle-income	Endorsed FIP IP, New SREP country (no IP)
Grenada	PPCR	Upper-middle-income (SIDS)	Endorsed SPCR
Haiti	PPCR/ SREP (New)	Low-income	Endorsed SPCR; New SREP country (no IP)
Honduras	SREP	Lower-middle-income	Endorsed IP
Indonesia	CTF/FIP	Lower-middle-income	Endorsed CTF and FIP IP
Jamaica	PPCR	Upper-middle-income (SIDS)	Endorsed SPCR
Kenya	SREP	Low-income	Endorsed IP
Kiribati	SREP (New)	Lower-middle-income	New SREP country (no IP)
Lao PDR	FIP	Lower-middle-income	Endorsed IP
Lesotho	SREP (New)	Lower-middle-income	New SREP country (no IP)
Liberia	SREP	Low-income	Endorsed IP
Madagascar	SREP (New)	Low-income	New SREP country (no IP)
Malawi	SREP (New)	Low-income	New SREP country (no IP)
Maldives	SREP	Upper-middle-income	Endorsed IP

Mali	SREP	Low-income	Endorsed IP
Mexico	CTF/FIP	Upper-middle-income	Endorsed IP
Mongolia	SREP	Lower-middle-income	No IP
Mozambique	PPCR	Low-income	Endorsed SPCR
Nepal	PPCR/SREP	Low-income	Endorsed SPCR and SREP IP
Nicaragua	SREP (New)	Lower-middle-income	New SREP country (no IP)
Niger	PPCR	Low-income	Endorsed SPCR
Papua New Guinea	PPCR	Lower-middle-income	Endorsed SPCR
Peru	FIP	Upper-middle-income	Endorsed IP
Rwanda	SREP (New)	Low-income	New SREP country (no IP)
Samoa	PPCR	Lower-middle-income	Endorsed SPCR
Sierra Leone	SREP (New)	Low-income	New SREP country (no IP)
Solomon Islands	SREP	Lower-middle-income	Endorsed IP
St. Lucia	PPCR	Upper-middle-income (SIDS)	Endorsed SPCR
St. Vincent and the Grenadines	PPCR	Upper-middle-income (SIDS)	Endorsed SPCR
Tajikistan	PPCR	Low-income	Endorsed SPCR
Tanzania	SREP	Low-income	Endorsed IP
Tonga	PPCR	Upper-middle-income (SIDS)	Endorsed SPCR
Uganda	SREP (New)	Low-income	New SREP country (no IP)
Vanuatu	SREP	Lower-middle-income	New SREP country (no IP)
Yemen	PPCR/SREP	Lower-middle-income	Endorsed SPCR; New SREP country (no IP)
Zambia	PPCR/ SREP (New)	Lower-middle-income	Endorsed SPCR; New SREP country (no IP)

CTF Countries

Country	CIF Program	World Bank Country Classification by Income	Comment
Algeria	CTF	Upper-middle-income	Endorsed IP
Chile	CTF	High-Income	Endorsed IP
Colombia	CTF	Upper-middle-income	Endorsed IP
Egypt	CTF	Lower-middle-income	Endorsed IP
India	CTF	Lower-middle-income	Endorsed IP
Indonesia	CTF/FIP	Lower-middle-income	Endorsed CTF and FIP IP
Jordan	CTF	Upper-middle-income	Endorsed IP
Kazakhstan	CTF	Upper-middle-income	Endorsed IP
Libya	CTF	Upper-middle-income	Endorsed IP
Mexico	CTF/FIP	Upper-middle-income	Endorsed IP
Morocco	CTF	Lower-middle-income	Endorsed IP
Nigeria	CTF	Lower-middle-income	Endorsed IP
Philippines	CTF	Lower-middle-income	Endorsed IP
South Africa	CTF	Upper-middle-income	Endorsed IP
Thailand	CTF	Upper-middle-income	Endorsed IP
Tunisia	CTF	Upper-middle-income	Endorsed IP
Turkey	CTF	Upper-middle-income	Endorsed IP
Ukraine	CTF	Lower-middle-income	Endorsed IP
Vietnam	CTF	Lower-middle-income	Endorsed IP

Annex 2: Common Format for Project Proposals for the Use of Resources from the SCF Private Sector Facility

The following serves as a standard cover page to be submitted together with the MDB project document requesting SCF PSF funding approval. Each MDB would submit its standard documentation with the completed cover page to secure SCF targeted program funding (e.g. pre- or post-appraisal document).

<table>
<tr><th colspan="4">Cover Page for Project/Program Approval Request</th></tr>
<tr><td>1. Country/Region:</td><td></td><td>2. CIF Project ID#:</td><td>(Trustee will assign ID)</td></tr>
<tr><td>3. SCF PSF theme:</td><td>☐ FIP</td><td>☐ PPCR</td><td>☐ SREP</td></tr>
<tr><td>4. Project/Program title:</td><td colspan="3"></td></tr>
<tr><td>5. Type of CIF investment:</td><td>☐ Public</td><td>☐ Private</td><td>☐ Mixed</td></tr>
<tr><td>6. Funding request in million USD equivalent:</td><td colspan="2">Grant:</td><td>Non-Grant:</td></tr>
<tr><td>7. Implementing MDB(s):</td><td colspan="3"></td></tr>
<tr><td>8. National Implementing Agency:</td><td colspan="3"></td></tr>
<tr><td>9. MDB Focal Point and Project/Program Task Team Leader (TTL):</td><td colspan="2">Headquarters- Focal Point:</td><td>TTL:</td></tr>
<tr><td colspan="4">10. Project/Program description (including objectives and expected outcomes):</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">11. Consistency with investment criteria[7]:</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">12. Stakeholder engagement[8]:</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">13. Gender considerations[9]:</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">14. Indicators and targets (consistent with results framework):</td></tr>
</table>

[7] Please provide the information in the cover page or indicate page numbers in the accompanying project/program document where such information can be found.

[8] Ibid.

[9] Ibid.

Core Indicator	**Target**	
(a)		
(b)		
…		
Development Indicator(s): …		
15. **Co-Financing:**		
	Amount (in USD million):	*Type of contribution:*
• Government		
• MDB		
• Private Sector (please specify)		
• Bilateral (please specify)		
• Others (please specify)		
Co-Financing Total:		
16. **Expected Board/MDB Management[10] approval date:**		

[10] In some cases activities will not require MDB Board approval.

Annex 3: Criteria for FIP Investment Strategies, Programs and Projects[11]

The FIP will use the following criteria to review investment strategies, programs and projects and to prioritize programs or projects, with a view to maximizing the transformational impact of FIP resources:

1. **Climate change mitigation potential.** FIP investment strategies, programs and projects should lead to significant reductions in deforestation and forest degradation and should promote policies and measures for improved sustainable management of forests that lead to emissions reductions and conservation and enhancement of forest carbon stocks.

2. **Consistency with FIP objectives and principles.** FIP investment strategies, programs and projects should demonstrably contribute to FIP objectives and adhere to FIP principles.

3. **Drivers of deforestation and forest degradation.** FIP investment strategies, programs and projects should assess and address the key direct and underlying drivers of deforestation and forest degradation within and outside the forest sector, avoid perverse incentives and ensure a holistic and inclusive national approach to REDD.

4. **Inclusive processes and participation of all important stakeholders, including indigenous peoples and local communities**. Consistent with relevant international instruments, obligations and domestic laws, FIP investment strategies, programs and projects at the country or regional level should be designed and implemented under a process of public consultation, with full and effective participation of all relevant stakeholders on matters that affect their distinctive rights, including in particular groups that historically have tended to be marginalized such as indigenous peoples, local communities and women.

   FIP-financed activities should, moreover, be consistent with, and/or complement, national sustainable development plans and be based upon broad community support and effective collaboration between indigenous peoples and local communities, government ministries, private sector and financial institutions in planning and implementing investment strategies. The FIP should also seek to engage other major stakeholders such as major groups identified by Agenda 21.

5. **Demonstration impact.** FIP investment strategies, programs and projects should support replicable national or regional pilot programs in order to demonstrate how to scale up public, private and other resources and activities so as to achieve transformational change.

6. **Forest-related governance.** FIP investment strategies, programs and projects should capitalize on the lessons learned concerning inclusive and effective improvements in governance and enhancement of law enforcement in other environmental sectors. FIP investments should support such improvements as an integral part of necessary measures

[11] FIP document “FIP: Investment Criteria and Financing Modalities” June 2012

and policies to ensure forest-related climate change outcomes. Forest governance criteria and indicators should be integrated into project design as well as into performance assessments to ensure measurable outcomes.

7. **Safeguarding the integrity of natural forests.** Consistent with its objectives, the FIP should safeguard natural forests and should not support the conversion, deforestation or degradation of such forests, *inter alia*, through industrial logging, conversion of natural forests to tree plantations or other large-scale agricultural conversion. In particular, the FIP should safeguard high conservation value forests. Special consideration should be given to the national circumstances, including development needs of countries with high forests cover and low deforestation rates.

8. **Partnership with private sector.** FIP investment strategies, programs and projects should develop and implement models for working with, and leveraging resources from, the private sector, including financial institutions, in effective implementation of REDD investment strategies, programs and projects.

9. **Economic and financial viability.** FIP investment strategies, programs and projects should catalyze self/sustaining financially profitable models for REDD at scale without the need for continuing subsidies.

10. **Capacity building.** FIP investment strategies, programs and projects should build local and national implementation capacity and institutions.

Annex 4: Principles for Using PPCR Funds in Private Sector Investments[12]

PPCR funds used in private sector investments will adhere to the following principles:

1. **Minimum concessionality:** MDBs will seek to provide the minimum concessionality needed to catalyze projects within a sector. In order to honor this principle, PPCR funds will be structured on a case-by-case basis to address the specific barriers identified in each project/program. The amount and terms of PPCR funding offered to an individual client will be determined between the MDB and the client on the basis of efficient and effective use of PPCR and MDB resources. While an attempt will be made to quantify the additional costs faced by early entrants and compare that with the subsidy element implicit in the financing terms being offered, country, industry and individual company dynamics will impact the amount of concessionality a company will accept in order to undertake a project. Finding the right amount of concessionality[13] is largely a matter of client needs, market conditions and negotiation, and is dependent on information flowing between the companies or being available in the market. The MDBs will always seek the minimum concessionality necessary to enable projects to happen and will justify the amount of concessionality requested in each PPCR proposal.

2. **Avoiding distortion and crowding out:** PPCR funds will not be priced or structured to displace commercial financing or set unsustainable expectations in a market. PPCR funds will be used to "crowd in" the private sector by enabling projects and investments to happen that otherwise would not by catalyzing those investments with their concessionality.

3. **Leverage:** PPCR funds will seek to catalyze and maximize the amount of MDB and other bilateral financing as well as commercial financing available for its projects. A key feature of the PPCR will be its ability to unlock both MDB and other private sector financing for climate adaptation investments and catalyze ongoing sustainable investments in these sectors beyond the initial PPCR investments.

4. **Financial sustainability:** PPCR programs will be developed to maximize the probability of long-term financial sustainability once the PPCR funds are no longer available/have been used. The project or program should at a minimum have the potential to achieve a substantial reduction in the need for subsidies in similar future projects beyond the initial few projects supported by PPCR.

[12] PPCR document "Pilot Program on Climate Resilience: Financing Modalities" June 2010

[13] Concessionality (or the subsidy element) of a PPCR investment is calculated as the difference between the hypothetical market interest payments and the actual PPCR interest payments over the life of the loan and discounted using the relevant zero-coupon swap curve in the relevant currency; divided by the amount of PPCR financing. For non debt products the interest payments in this calculation would be substituted by the relevant investment payments (e.g. guarantee fees).

Annex 5: Principles for Using SREP Funds in Private Sector Investments[14]

Involvement of the private sector, particularly the local private sector, is a key objective of the SREP. SREP funds used in private sector investments will adhere to the following principles:

1. **Minimum concessionality:** MDBs will seek to provide the minimum concessionality needed to catalyze investments within a sector. In accordance with this principle, SREP investments will be structured on a case-by-case basis to address the specific barriers identified in each project/program and risks associated with the technology, market, project implementation and financial structure. The amount and terms of SREP funding offered to an individual client will be determined between the MDB and the client on the basis of efficient and effective use of SREP and MDB resources. While an attempt will be made to quantify the additional costs faced by early entrants and compare that with the subsidy element implicit in the financing terms being offered, country, industry and individual company dynamics will impact the amount of concessionality a company will accept in order to undertake a project. Finding the right amount of concessionality is largely a matter of client needs, market conditions, financial structure and negotiation, and is dependent on information flowing between the companies or being available in the market. MDBs will always seek the minimum concessionality necessary to enable projects to happen and will justify the amount of concessionality requested in each SREP proposal.

2. **Avoiding distortion and crowding out:** SREP funds will not be priced or structured to displace commercial financing or to set unsustainable expectations in a market. SREP funds will be used to "crowd in" the private sector by enabling projects and investments to happen that otherwise would not by catalyzing those investments with their concessionality.

3. **Leverage:** SREP funds will seek to catalyze and maximize the amount of MDB and other partners' financing as well as commercial financing available for its investments. A key feature of the SREP will be its ability to unlock both MDB and other private sector financing for renewable energy technology investments and catalyze ongoing sustainable investments in these sectors beyond the initial SREP investments.

4. **Financial sustainability:** SREP programs will be developed to maximize the probability of long-term financial sustainability once the SREP funds are no longer available/have been used. Investments should not be approved if future sector development is likely to be dependent on a continuous flow of SREP funds. The project or program should at a minimum have the potential to achieve a substantial reduction in the need for subsidies in similar future projects beyond the initial few projects supported by SREP.

[14] SREP document "Financing Modalities" November 2010