

# CLIMATE INVESTMENT FUNDS

PPCR/SC.15/6  
October 17, 2014

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Meeting of the PPCR Sub-Committee  
Washington, D.C.  
November 18, 2014

Agenda Item 6

## **PROCEDURES FOR AN EXPANDED PPCR SET-ASIDE TO INCENTIVIZE INNOVATIVE PRIVATE SECTOR INVESTMENTS IN CLIMATE RESILIENCE AND ADAPTATION**

**(SUMMARY)**

## PROPOSED DECISION

The PPCR Sub-Committee reviewed document PPCR/SC.15/6, *Procedures for an Expanded PPCR Set-Aside to Incentivize Innovative Private Sector Investments in Climate Resilience and Adaptation*, and

- (i) agrees to expand the PPCR set-aside mechanisms to invite [eligible low and lower middle income CIF countries] [all SCF countries and low and lower middle income CTF countries] for incentivizing innovative private sector investments in climate resilience and adaptation;
- (ii) approves the procedures for the expanded PPCR set aside to incentivize innovative private sector investments in climate resilience and adaptation;
- (iii) requests the CIF Administrative Unit and the MDBs to make all necessary arrangements for the process of initiating the “calls for proposals” under the expanded PPCR private sector set aside should a minimum of USD [50][80] million in PPCR resources become available,
- (iv) agrees on the following four dates for the final submission of concepts:
  - a. DATE
  - b. DATE
  - c. DATE
  - d. DATEand
- (v) looks forward to select concept notes based on the recommendation of the expert group in accordance with the agreed procedures.

## **I. INTRODUCTION**

1. At its meeting on June 27, 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>1</sup> CIF countries and recognizing the need for appropriate technical assistance, training, and country engagement in existing PPCR countries and other low income countries.

2. This paper responds to the request by the PPCR Sub-Committee and outlines the proposed scope and procedures for allocating on a competitive basis PPCR resources to [low and lower middle income CIF countries] [all SCF countries and low and lower middle income CTF countries] for incentivizing innovative private sector investments in climate resilience and adaptation.

## **II. BACKGROUND**

3. In total, for round 1 and 2 of the PPCR private sector set aside, the PPCR Sub-Committee has endorsed 12 concepts allocating USD 80.35 million in near-zero interest PPCR credits.

4. In November 2013, the CIF Administrative Unit, in collaboration with the MDBs and the pilot countries, was requested 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 in the CIF.

5. The CIF Administrative Unit contracted the firm *Vivid Economics* for the consultancy. The final assessment report is available as information document CTF-SCF/TFC.13/Inf.5, *A Review of the Private Sector Set-Aside of the Strategic Climate Fund*.

## **III. ELABORATION OF THE PROPOSED EXPANDED COMPETITIVE SET-ASIDE UNDER THE PPCR**

6. During the discussion on the procedures proposed in this document, the PPCR MDB Committee discussed the potential of this option to explore new opportunities in the context of the decision by the PPCR Sub-Committee. The MDBs shared the view that by inviting only low and lower-middle income<sup>2</sup> CIF countries to participate in the expanded PPCR private sector set-aside (in addition to the current PPCR pilot countries), the potential to generate innovative private sector investments will remain limited. The MDB PPCR Committee underscored that private sector operations and related learning can be maximized if the PPCR private sector set-aside would be expanded to all SCF countries as well as to low and lower middle income CTF countries. This expansion would introduce more flexibility, market reach and enhance the opportunities for learning from countries which are highly vulnerable to the impacts of climate variability and change but have stronger technical and financial capacities.

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<sup>1</sup> Based on World Bank country classification by income (<http://data.worldbank.org/about/country-and-lending-groups>)

<sup>2</sup> *Ibid.*

## Purpose and Scope

7. The set aside would continue to function as a competitive allocation of available PPCR resources and concepts continue to be reviewed based on assessment criteria agreed by the PPCR Sub-Committee. It would be expanded so that project activities to be implemented in any [low and lower middle income<sup>3</sup> CIF country][SCF country and low and lower middle income CTF country], including the existing set of PPCR pilot countries could be considered. Competition would be generated through a “call for proposals” taking into account the lessons learned from rounds 1 and 2 of the PPCR private sector set-aside.

8. The “call for proposals” would be established as follows:

- a) Subject to the availability of resources, the PPCR Sub-Committee would agree on an annual envelope for the expanded PPCR private sector set-aside; at least one fourth of the annual envelop will be available each quarter, and any unendorsed amount of funds will roll-over to the next quarter.
- b) A consultation process will take place with interested CIF pilot countries to articulate country-specific themes which could be addressed through the “call for proposals” to address national priorities and enabling environment conditions (some examples are presented further below);
- c) Four dates within the year will 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. The expert group would interact with the MDBs and project proponents as described further below. The report of the expert group would be submitted to the PPCR Sub-Committee 2 weeks after the four submission dates for a decision by mail or during an inter-sessional meeting of the PPCR Sub-Committee held virtually or in-person;
- d) MDBs may submit project concepts and programmatic proposals;
- e) Concept notes identified by the expert group with potential for improvement may be revised and resubmitted either for the same or the next submission date of the “call for proposals”.

9. Countries which are interested in thematic national “call for proposals” may want to consider focusing on some the following potential themes. This list is not exhaustive and only provides examples of potential themes to be considered. It is recommended that countries should not limit the “call for proposals” to a few themes but rather be encouraged to allow for flexibility that is necessary to generate private sector interest, broaden market reach in PPCR related activities and innovation in addressing the impacts of climate variability and change:

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<sup>3</sup> *Ibid.*

- a) dedicated financing facilities to scale up finance for climate resilience measures in vulnerable sectors (e.g. agriculture, residential/commercial property, manufacturing, renewables, tourism);
- b) targeted finance for making privately owned/managed infrastructure more climate-resilient (e.g. transport, ports, roads, power and energy, housing, natural resources, water use infrastructure);
- c) insurance-based mechanisms to help businesses and households cope with climate-driven risks and shocks;
- d) access to climate information and services for the end users in vulnerable sectors (e.g. water, agriculture, roads, health, disaster risk management);
- e) waste water recovery and improved water resource management, or
- f) agriculture and agribusiness supply chain resilience.

### **Eligibility**

10. The Sub-Committee agrees that all [low and lower middle income<sup>4</sup> CIF countries][SCF countries and low and lower middle income CTF countries], including all current PPCR pilot countries would be eligible to access funding under the expanded PPCR private sector set aside (“eligible CIF countries”). Annex 1 in the full report provides the list with eligible CIF countries.

11. It is proposed that PPCR resources should be set aside for allocation to programs and projects in eligible CIF countries, selected on a competitive basis, to provide PPCR funding to:

- a) private sector clients working through MDB private sector arms, or
- b) public sector entities working through MDB public or private sector arms which would in turn benefit private sector recipients, through innovative, competitive mechanisms such as competitive allocation of concessional financing to private sector entities, public-private partnerships, or results-based financing.

### **Policy Framework for Projects and Programs Supported under the Expanded PPCR Private Sector Set-Aside**

12. The PPCR private sector set-aside is a funding mechanism under the PPCR. Hence, all decisions on policy and funding related to the PPCR private sector set-aside need to be consistent with the *PPCR Design Document*. Decisions on funding are made by the PPCR Sub-Committee.

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<sup>4</sup> *Ibid.*

13. For the current set of PPCR pilot countries, the *Programming and Financing Modalities for the PPCR*<sup>5</sup> and the *PPCR Financing Modalities*<sup>6</sup> apply. This includes that projects or programs need to contribute to furthering the objective of the endorsed PPCR investment plan.

14. For eligible CIF countries under the extended PPCR private sector set-aside in the CTF, FIP and SREP, the *Programming and Financing Modalities for the PPCR* and the *PPCR Financing Modalities* would apply as well. However, in absence of an endorsed PPCR investment plan, proponents would need to present a relevant national programming context such as an approved National Adaptation Plan of Action (NAPA) or a National Plan on Adaptation (NAP) or an equivalent national-level climate policy or plan.

## **Procedures**

15. The following procedures are to be followed to select the project and program concepts to be funded from the expanded PPCR private sector set-aside.

## ***Information Sharing and Outreach***

16. Information on the set aside and the agreed procedures, including a common format for presenting concepts; a timeline for the completion of steps, and links to the investment plan and other relevant information will be made available through the dedicated page on the CIF Administrative Unit's website and, as appropriate, the websites of the MDBs and the countries' national channels of communication.

## ***Concept Development and Submissions***

17. To be considered for PPCR funding, concept notes should be submitted by an MDB to the CIF Administrative Unit. Concepts will be developed by the MDBs and proponents in consultation with relevant partners as appropriate.

18. Only project and program concepts that were submitted by the agreed date and by an MDB to the CIF Administrative Unit will be reviewed by the expert group.

19. Based on the lessons learned from the first two rounds of the PPCR private sector set-aside, the financial envelope for the expanded PPCR private-sector set-aside should provide for a mix of grants (for technical assistance, advisory services, investments) and concessional finance (loans, equity, and guarantees) consistent with the *PPCR Financing Modalities*.

20. To support the investment origination and concept development efforts by the MDBs in the context of the "call for proposals", it is proposed to provide grant resources for up to USD 1 million to each MDB at the beginning of the submission year. The resources would be provided through the CIF Administrative Budget. These grants would be used to fund, for example, cost-

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5

[https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR\\_Programming\\_and\\_Financing\\_Modalities.pdf](https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Programming_and_Financing_Modalities.pdf)

<sup>6</sup> [https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR\\_Financing\\_Modalities\\_final.pdf](https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Financing_Modalities_final.pdf)

benefit analysis for various adaptation measures that specific private sector clients in eligible CIF countries may consider, with the goal of demonstrating the financial viability and strategic business values those investments would provide.

21. Grants should be made available for the further development of the projects and programs once the concept has been endorsed and funding been allocated. Preparatory grants for the project or program would be part of that endorsed allocation.

### *Assessment Criteria*

22. The expert group will review the concept proposals and make prioritized recommendations based on the extent to which the concept proposals meet the below criteria. For each criterion, a weight has been assigned to guide project proponents and the expert reviewers when considering concepts.

- a) *Further advancement of the objectives of the endorsed SPCR or contribution to national climate resilient development goals, including the implementation of other relevant national policies and plans addressing climate change (e.g. NAPA or NAP)(15%):* The degree to which the proposed project meets the objectives and purpose of the PPCR<sup>7</sup>.
- b) *Level of innovation related to a specific market proposed (20 % weighting):* this may include innovation in terms of technology, business models, financial instruments or structure in a country or region. The "level of innovation proposed" needs to be justified in the country- or sector-specific context of the proposal.
- c) *Readiness (20% weighting):* feasibility of MDB board approval within 12-18 months of the endorsement of the concept by the PPCR Sub-Committee. An assessment of readiness may also include as to whether the national policy and regulatory framework is supportive of private sector investments and the implementation risk.
- d) *Level of increase of benefits to vulnerable groups or of decrease of vulnerability of economic sectors impacted by climate variability and change (20% weighting):* how the project/program may benefit vulnerable or marginalized groups or economic sectors impacted by climate variability and change, and how gender considerations will be taken into account.
- e) *Sustainability and replicability of intended results (15% weighting):* the likelihood of the PPCR-supported investment to produce results which can be sustained and replicated by the market over time without additional external concessional financing support or have a demonstrative character to be scaled up through markets.

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<sup>7</sup> [http://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR\\_design\\_Document\\_final.pdf](http://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_design_Document_final.pdf)

### ***Expert Group***

23. The final report of the expert group with a priority list of concepts will be submitted together with a balance sheet on the set aside resources envelope, including endorsed and still available resources, for a decision-by-mail by the Sub-Committee. The Sub-Committee will endorse concept notes for further development and PPCR funding approval. If there are not a sufficient number of good quality concept proposals by the end of the forth call within the year, then the expert group need not recommend a full allocation of the resources.

### ***Processing***

24. In order to facilitate the preparation and consideration of program and project concepts, a common format for presenting such concepts is presented in Annex 2. Once a concept has been endorsed, the further development of the project or program will follow the procedures agreed for the PPCR.



**Common Format for Project/Program Concept Note for the Use of Resources from the  
Expanded PPCR Competitive Set-Aside**

PILOT PROGRAM FOR CLIMATE RESILIENCE				
Expanded Private Sector Set-Aside Concept Note				
1. Country/Region:			2. CIF Project ID#:	
3. Country participating in:	<input type="checkbox"/> CTF	<input type="checkbox"/> PPCR	<input type="checkbox"/> FIP	<input type="checkbox"/> SREP
4. Project/Program Title:				
5. Date of Endorsement of the Investment Plan (if applicable):				
6. Funding Request (in million USD equivalent):	<i>Grant:</i>		<i>Non-Grant (loan, equity, guarantee, etc.):</i>	
7. Implementing MDB(s):			<input type="checkbox"/> Private sector arm <input type="checkbox"/> Public sector arm	
8. Executing Agency:				
9. MDB Focal Point and Project/Program Task Team Leader (TTL):	<i>Headquarters- Focal Point:</i>		<i>TTL:</i>	

- I. **Project/Program Description:** Provide a summary description of the project, objectives, and expected outcomes. Also, provide information whether this will be a solely private sector project, a PPP, or a public sector project financing private sector entities.
  
- II. **Context and market:** Provide brief explanation of country/sector context and an overview of the market (product nature, supply and demand status, prices, and competition. In the absence of other comparable products, provide a brief explanation on how the proposed product will substitute for existing products and the benefits from a climate standpoint, and the prospects of commercial viability. If proposing a new business model, provide information of comparable to business as usual). Also, provide an overview of current **market barriers** and how will they be reversed by the proposed project.
  
- III. **County Plan Alignment:** Provide an explanation how the project/program is aligned with the objective of the CIF country investment plans (as appropriate) or other national policy and programming framework relevant to addressing the impacts of climate

variability and change (mandatory for eligible CIF countries not participating in the PPCR)<sup>8</sup>.

**IV. Project Innovation:**

- a. Innovation** - how the project is innovative in terms of technology, business model, financial instruments or structure, market creation, and/or new partnerships, and how the innovation will add value to the project. The level of innovation proposed needs to be justified in the country- or sector-specific context of the proposal.
- b. Technology, Product, and/or Business Model:** Provide description of the technology, the technology provider if identified, whether it has been tested, commercialized and viable commercially. If the project does not involve a technology, provide a description of the business model and its structure.
- c. Sustainability of intended results:** provide information on the likelihood of a project to produce results which can be sustained over time without additional external financial support or have a demonstrative character to be scaled up through markets.

**V. Addressing vulnerability of people and sectors:** Provide information on how the project/program may benefit vulnerable or marginalized groups or economic sectors will be addressed to the extent possible, provide information on the population size and affected economic sectors, the degree of vulnerability, and estimated impact on vulnerable populations and sectors.

**VI. Financial Plan (Indicative):**

<b>Source of Funding (please indicate type of instrument, equity, debt, guarantee, grants, credit lines, etc. in each case)</b>	<b>Amount (USD million equivalent)</b>	<b>Percentage (%)</b>
Project developer		
MDB		
PPCR		
Local banks		
Other investors		
Bilaterals		
Others		
<b>TOTAL</b>		<b>100%</b>

<sup>8</sup> In absence of an endorsed PPCR investment plan, proponents would need to present a relevant programming context such as an approved National Adaptation Plan of Action (NAPA) or a National Plan on Adaptation (NAP) or an equivalent national-level climate policy or plan. If possible and appropriate, a strategic link to the relevant endorsed CIF investment plan should be made to explore synergies between climate resilience building and mitigation activities.

**VII. Expected Results and Indicators<sup>9</sup>**

Expected Result(s)	Indicator(s)
<i>Development Result(s):...</i>	

**VIII. Implementation Arrangements and Feasibility:** Provide information on the implementation feasibility of the proposed project and an estimated timeline for PPCR funding and MDB approval (PPCR Sub-Committee and MDB).

**IX. Potential Risks and Mitigation Measures:** What are the risks that might prevent the project development outcome(s) from being realized, including but not limited to, political, policy-related, social/stakeholder-related, macro-economic, or financial?

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<sup>9</sup> These indicators will need to contribute or mapped to the five agreed PPCR core indicators.