Climate Investment Funds Monitor 5
April 2012

Summary of key developments and concerns

- As the Climate Investment Funds (CIFs) brought on board a second round of country investment plans, and sought to attract new financing from donors, civil society groups warned that this will undermine efforts to finance the new Green Climate Fund (GCF) (page 1).
- A new set of civil society observers to the CIFs have been selected (page 2).
- The Clean Technology Fund (CTF) approved India's investment plan, but concerns were raised over its potential financing of large hydropower; a revision to the Philippines plan to finance electric vehicles provoked serious objections from government officials and civil society groups over climate-effectiveness and country ownership (page 3).
- The Pilot Program for Climate Resilience (PPCR) adopted a new regulation on debt sustainability, but civil society groups maintained that loans for adaptation weaken the ability of states to deal with climate change (page 6).
- The Forest Investment Program (FIP) approved investment plans for Laos and Mexico, and deliberated plans from Peru and Indonesia, but concerns were raised over coherence with national strategies, the participation of and consultation with affected communities and civil society, and development impact (page 9).
- The Scaling Up Renewable Energy Program in Low Income Countries (SREP) welcomed a new country, Tanzania, to the scheme and endorsed investment plans from Kenya, Honduras, Mali and Nepal, as well as Ethiopia "in principle", but concerns were raised over development impact, transformational impact and energy access (page 11).

Introduction

The World Bank-housed CIFs are financing instruments designed to pilot low-carbon and climate-resilient development through the multilateral development banks (MDBs). They are comprised of two trust funds – the CTF and the SCF. The SCF is an overarching fund aimed at piloting new development approaches. It consists of three targeted programmes: PPCR, FIP and SREP. So far donors have pledged $4.3 billion to the CTF and $1.9 billion to the SCF.

This edition of the *CIFs Monitor* outlines recent developments at the CIFs and collates ongoing concerns over their operation. It builds on *CIFs Monitor 4*, published in October 2011. This edition reports on CTF trust fund committee and SCF programme sub-committee meetings and communications from October 2011 to April 2012. These committees serve as the governing bodies of the funds.

CIFs expanding

In mid April, a letter by 117 civil society groups, including Kenyan NGO Jamaa Resource Initiatives and Oxfam International, was sent to governments contributing funds to the CIFs calling on them to "adhere to the [CIFs] sunset clause", redirect funding towards the United Nations Framework Convention on Climate Change mandated GCF and "actively support the GCF as the primary international financial institution for climate finance", ensuring that "continued funding of the CIFs do not undermine this effort."

The letter was sent in the context of further efforts to scale up the CIFs, including more countries becoming accepted under the CIFs. SREP has officially welcomed a new pilot country, Tanzania, which is now eligible for funding. Furthermore, the sub-committee has agreed a priority order for the "reserve list" of a further four countries and one region "provided that sufficient funds are pledged to the SREP to cover the full funding of each new pilot." In CTF it has been agreed that it should continue to raise more resources for the CTF while both Nigeria and India, both not on the original pilot list, were told they should begin developing projects. India clarified that it was accessing the CTF as an interim measure pending the operationalisation of the GCF. Another country, Chile, had decided to not submit its investment plan until more resources are available but is now expected to do so at the May trust fund committee meetings.

In its business case for further financing of the CIFs the UK government downgraded a recommended £375 million ($610 million) of CIF support for 2011/12 and 2012/13 to £300 million ($488 million) "in light of expected contributions from other donors". CTF was allocated £150m, specifically for new country investment plans, including Nigeria and India. SREP was allocated £50 million ($81 million) "to one country (e.g. Tanzania) from the reserve list as well as an additional contribution to the reserve pot for existing SREP pilot countries." This was confirmed in late April, when UK's Department for International Development (DFID) announced £25 million of funding to SREP, with a further £25 million ($41 million) depending on "continued success". In the business case, the UK also explored the option of "absorption of the CIFs by the GCF", looking at the "adaptation of the CIFs to enable a smooth transfer of the CIF mechanism, current and pledged finance, to the Green Climate Fund", noting that it does "present a choice."

Proposal for independent evaluation of the CIFs

The CTF and SCF governance frameworks stipulate that every three years the MDBs independent evaluation bodies conduct an independent evaluation of the operations of the CIFs. At the November meeting the joint CTF-SCF committee agreed that the evaluation should comprise of two components. The first should evaluate processes and procedures, including how investment plans are devised and projects designed, as well as review the governance arrangements at the funds. The second part should evaluate the operations of the CTF, bearing in mind that SCF programmes are not currently operational.

New observers

Below is the final list of new civil society observers to the CIFs. They will serve from 2012 to 2014.

	Africa	Asia/Pacific	Latin America	Developed countries
CTF	Joseph Adelegan, Global Network for Environment and Economic Development Research, Nigeria	Elpidio Peria, Biodiversity, Innovation, and Trade Society Policy Centre, Philippines	Sergio Sanchez, Clean Air Institute, Mexico	Clifford Polycarp, World Resources Institute, USA
SREP	Judy Ndichu, Transparency International, Kenya	Padam Hamal, Neighbour Organisation, Nepal	Bessy Bendana, Asociación Hondureña de Pequeños Productores de Energía Renovable, Honduras	Ana Rojas, ETC Foundation, Netherlands
FIP	Gertrude Kenyangi, Support for Women in Agriculture and Environment,	Archana Godbole, Applied Environmental Research Foundation, India	Fernanda Gebara, Fundação Getulio Vargas, Brazil	Rick Jacobsen, Global Witness, UK

	Uganda			
PPCR	Camilo Nhancale, Kuwuka JDA, Mozambique	Marion Verles, Nexus, Cambodia	Maria Zubiaga, Instituto Dominicano de Desarallo Integral, Dominican Republic	Nathalie Eddy, Global Gender and Climate Alliance, USA

Clean Technology Fund (CTF)

Background

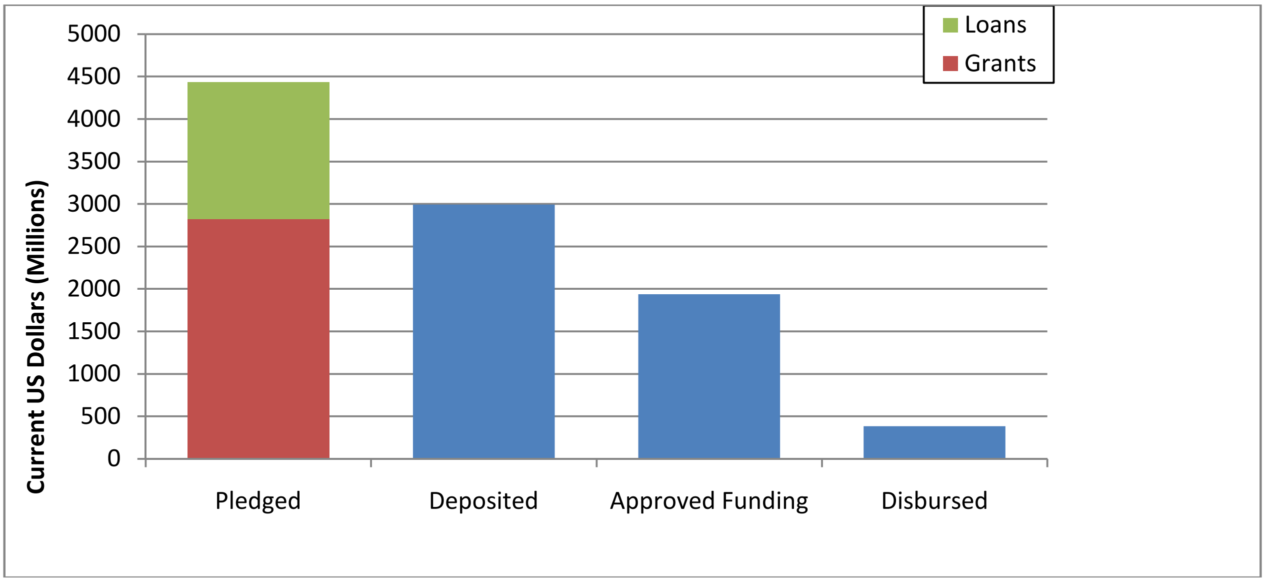
The objective of the CTF is to use minimum levels of concessional financing to catalyse investment opportunities that will reduce emissions in the long term. The CTF focuses on financing projects in middle-income and fast-growing developing countries.

The trust fund committee has so far endorsed 13 investment plans for a total of $4.3 billion for 12 countries: Colombia, Egypt, Indonesia, Kazakhstan, Mexico, Morocco, South Africa, Thailand, Turkey, Ukraine, Vietnam, Nigeria and India; and one regional formation for the Middle East and North Africa (MENA) covering Algeria, Egypt, Jordan, Morocco and Tunisia.

Updates

Resources

Graph 1



Operation

At the November meetings the CIF administrative unit presented a traffic light system analysis of CTF projects, charting their progress from design to approval. Of the 66 projects waiting to go before the committee for approval 80 per cent were given a red light, meaning they are severely delayed. The MDBs have provided some causal explanations for this, giving reasons on a project-by-project basis[i]. The global environmental think-tank the World Resources Institute (WRI), developed country civil society observer for the CTF, has identified two prominent issues in the MDBs report:

- Projects have to be progressed according the funds available. Many donor commitments to the CTF have yet to be deposited (see chart 1 above).
- MDBs have consistently cited policy and regulatory issues in recipient countries, where there is not adequate frameworks to implement CTF projects. For WRI this "reinforces the need for investment plans and projects to be developed with a much more realistic assessment of the underlying policy and regulatory framework in mind, and a much more sophisticated and well-targeted approach to addressing these issues through capacity building and reform support."

The committee acknowledged these concerns, and the admin unit has been tasked with proposing lessons learned and potential solutions at the next meeting.

Concerns

India investment plan

At the November committee meetings the Indian investment plan was approved. India requested $775 million in CTF resources. However, India and the MDBs were asked to revise parts of the plan following concerns raised by committee members. Of particular concern was the hydropower project in the state of Himachal Pradesh. The project will use CTF resources to contribute to a Development Policy Loan (DPL) financed by the International Bank for Reconstruction and Development (IBRD), the Bank's middle-income country lending arm. The loan will be to the Himachal Pradesh state government to improve its social and environmental management capacity, and engage in regulatory reform to stimulate more private sector investment in the sector. Committee members said that the use of a DPL, which provide direct budget support to governments rather than to specific projects, means it is unclear how environmental and social safeguards will apply. World Bank safeguards do not apply to DPLs, which instead rely on country systems, and civil society groups have argued that this lack of accountability means it is difficult to monitor environmental and social impacts. India replied that the finance would be used to create systems to review and address social and environmental issues, and would not directly finance infrastructure investments. Instead it would leverage infrastructure investments from the public and private sectors.

The project includes co-financing from the IBRD and the Indian government, and committee members questioned whether these commitments could be considered additional, i.e. leveraged by the use of concessional CTF resources. There were also questions over whether CTF resources could or should be used to finance large-scale hydropower projects. WRI noted that it is "unclear whether CTF money can and should be directed to large hydropower programmes, and whether this is consistent with the spirit of the CTF public sector investment criteria". Furthermore, committee members also expressed doubt over whether the use of a DPL provided the mechanisms to allow the participation and consultation of local people, and to effectively track results. India and the MDBs will revise the investment plan to address these concerns.

WRI also submitted an analysis of the investment plan, and described the challenge for such a programme considering the strength of civil society in India on the issue of large hydropower projects. They said that "it will be important to provide much more evidence of NGO and citizen participation in the design and implementation of this component of the programme than has been made to date". Dams in India have been historically controversial, as has Bank involvement in the sector[ii]. A recent IBRD-financed hydropower scheme in Himachal Pradesh, the Luhri run-of-the-river project, is already provoking controversy in the region, with Indian NGO Him Dhara warning of serious opposition from affected communities, and a failure of impact assessments to thus far account for potentially devastating environmental and social impacts.[iii]

Philippines investment plan

At the November 2011 meeting the Philippines submitted a revision to its original investment plan, approved in 2009, which sees $125 million of CTF resources re-allocated from a solar power project to an energy efficient appliances project and an energy efficient electric vehicles (EEEV) project developed by the Asian Development Bank (ADB). In January the committee proposed to approve the revised plan, barring objections. However, although the energy efficient appliances project was deemed acceptable, the EEEV project has proved controversial, with complaints raised by government agencies in the Philippines and by civil society organisations, including the NGO Forum on the ADB, Climate Action Philippines, and the Freedom from Debt Coalition.

A number of concerns were raised in the complaints:

- Government agencies said that they were not consulted on the proposal, including the Climate Change Commission, the lead agency on climate change policy in the Philippines. The Department of Energy had explicitly stated that decisions on financing rest with the ADB. The NGO Forum on the ADB complained that the project had "fallen short [...] in terms of the conduct of inclusive consultation among stakeholders, such as: renewable energy advocates, civil society organizations, and finance groups, among others". Bernarditas Muller, lead coordinator for the G77 and China in the ad hoc working group on long-term cooperative action at the United Nations Framework Convention on Climate Change (UNFCCC), said that: "This case seems like a graphic illustration of project loans proffered from multilateral financing institutions and regional development banks that have not taken account of nationally-determined priorities and needs through transparent consultation processes. This is clearly contrary to the country-led approach that these financing institutions purport to uphold".
- Contrary to the investment criteria for CTF investments, the plan has not adequately considered a wide variety of alternatives, leaving the rationale for the EEEV project unclear. There are also serious concerns over the potential emissions reductions of the project, with a large part of electricity from the power grid derived from coal.
- Climate Action Philippines argued that the EEEV project will actually crowd out the private sector by financing the manufacture of already commercially viable technologies. Diverting finance away from innovative renewable energy will undermine the development of this crucial sector, which is an already identified national priority.

Civil society observers to the CTF facilitated initial consultations between the ADB, national authorities and civil society organisations while the deadline for approval was extended. The ADB and the Philippines then committed to extensive consultations with stakeholders on the revised plan. After further complaints that consultations had not taken place, the decision on the investment plan has been postponed until the ADB and Philippines are in a position to submit a new plan.

Wind farm project in Mexico

In November 2011 UK NGO World Development Movement (WDM) released a report[iv] which analyses the financing and impact of a CTF wind farm project in Oaxaca, Mexico. A $15 million loan from CTF resources is being provided to the project developer, a subsidiary of French energy giant Electricite de France (EDF), alongside co-financing from the World Bank's private sector-arm the International Finance Corporation (IFC), the Inter-American Development Bank (IDB), and the US Export-Import Bank.

Considering that the project is entirely financed by development finance institutions, the report doubts as to whether the use of concessional CTF resources is warranted, as the project appears to be financeable. Furthermore, although the project will produce 67.5 megawatts per year, enough to power 160,000 homes in a state where around 7 per cent of the population lack access to electricity, all the energy produced will be sold at a discounted rate to Walmart, the world's largest company. This is achieved by "exploiting a loophole in Mexico's energy laws, which allows Walmart to officially claim that it has produced the power itself", by owning a nominal stake in the EDF subsidiary. WDM says that "local activists are demanding cheaper electricity to avert energy poverty, but 'self supply' projects following the Walmart EDF model only reduce costs for corporations and could worsen energy inequalities". The CTF hopes that this project will encourage private sector investment in wind power in Oaxaca, but these plans "have met with considerable local resistance, however, amidst concerns that they form part of an attempt to grab indigenous lands and convert them into resources for the market."

The project will also receive revenue from payments for carbon credits under the UNFCCC's Clean Development Mechanism (CDM). However, the report argues that in order to make the project appear financially non-viable without the carbon credit revenue, which allows it to be registered under the CDM, EDF uses "a form of 'transfer pricing'; a pricing arrangement between subsidiaries of multinational companies that seeks to minimise taxes and maximise subsidies. This is possible because EDF controls the company operating the project, the company subcontracted for maintenance *and* the company buying the CDM credits." In this case, the projects internal rate of return is lessened by overcharging subsidiary companies for services, meaning the project is in fact profitable without the CDM credit. This also calls into question the additionality of CTF investment in the project.

Pilot Program for Climate Resilience (PPCR)

<u>Background</u>

The PPCR aspires to demonstrate how climate risk and resilience can be integrated into core development planning and implementation. PPCR funding is disbursed in two phases, to support two types of investment: first technical assistance to allow developing countries to integrate climate resilience into national and sectoral development plans, resulting in a Strategic Program for Climate Resilience (SPCR), and second, funding for the implementation of this programme. In 2009, nine countries (Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan, Yemen and Zambia) and two regional groupings (six Caribbean island countries and three Pacific island countries) were invited to participate in the PPCR. All but four of the 18 participating countries have now submitted SPCRs, with Dominica, Haiti, Papua New Guinea and Tonga expected to submit SPCRs in 2012.

<u>Updates</u>

Resources

See graph 2 on page 7 for status of contributions to the PPCR.

At the November 2011 sub-committee meetings SPCRs were endorsed for Bolivia and Jamaica. At the June 2011 sub-committee meeting (see *CIFs Monitor 4*) it was agreed that owing to the limited amount of PPCR resources available each country will only be able to programme up to $40-50 million in grants and up to $36 million in loans. Financing for Jamaica and Bolivia's SPCRs will thus be constrained by these ceilings.

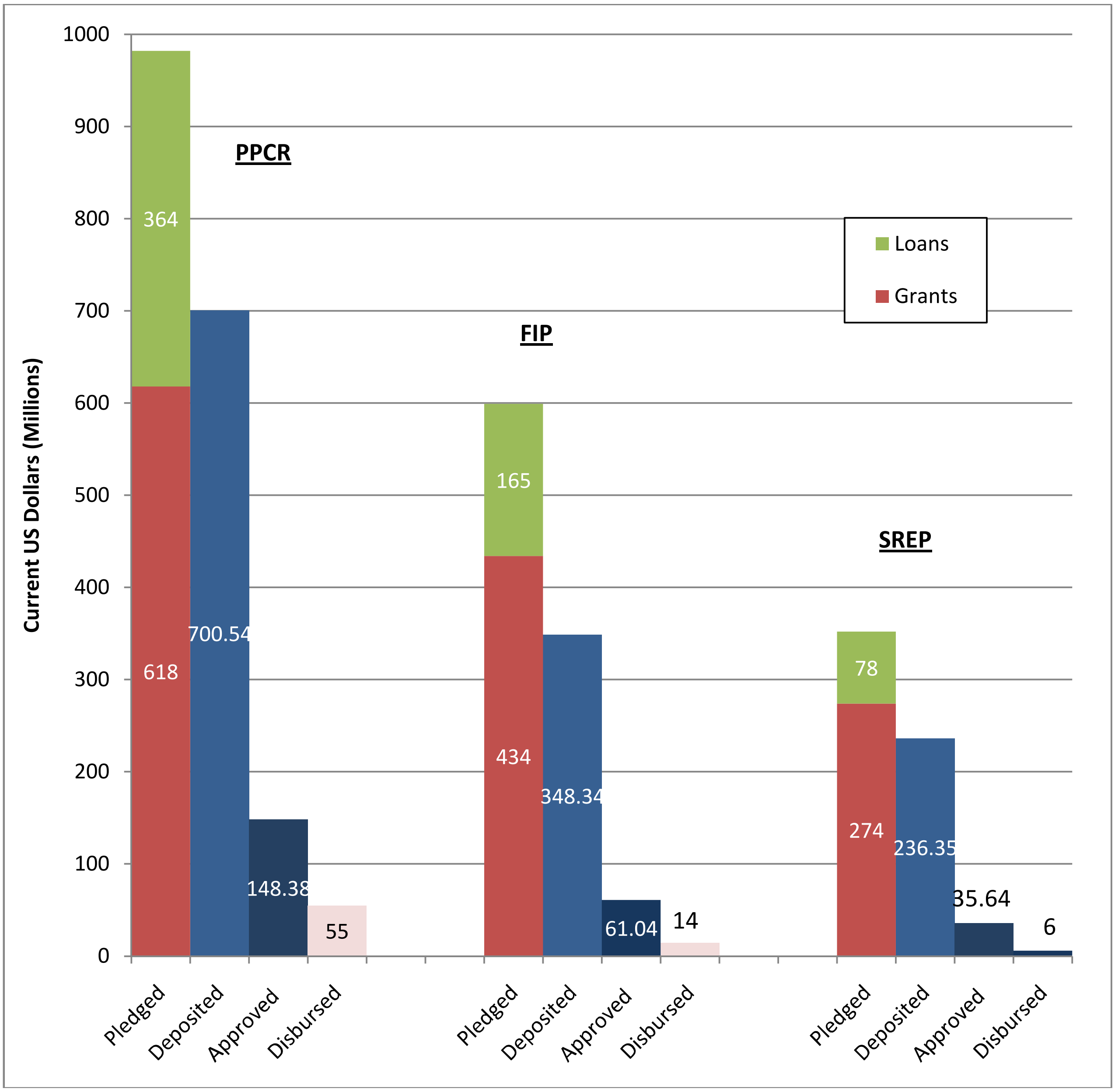
The sub-committee also approved Yemen's plan, but MDBs are currently not operating in Yemen due to political conflict, and Yemen was asked to resubmit the SPCR once this temporary suspension had been lifted.

Debt sustainability in the PPCR

The PPCR offers both loans and grants to recipient countries at their request, and can also receive loans in co-financing arrangements with the MDBs. A large number of countries have requested loans, and the sub-committee has twice requested the CIF administrative unit to produce papers looking at how MDBs implement their debt sustainability tools when producing SPCRs and financing requests, and suggest policies that would prevent PPCR credits adding to the burden of countries already under debt distress. It was noted that both FIP and SREP do not offer loans to countries under moderate or high debt distress. However, as the PPCR has no similar policy it has already allocated loans for countries such as Nepal, judged to be under moderate risk of debt distress.

At the November committee meeting, members considered a proposal to replicate the arrangements under FIP and SREP. Alternatively, they could approve a measure that does not allow credits to countries with a high risk of debt distress, but does allow them for countries under moderate risk providing that these countries, together with the MDBs and the International Monetary Fund (IMF), conduct a macro-economic analysis to evaluate the potential for PPCR credits to impact their debt sustainability. Under both proposals loans would be available to the private sector. The committee decided to implement the second option, especially considering that under the first proposal Nepal would not be able to access the loans built into the costing of its projects. Members stressed the pilot nature of the PPCR, and the fact that it is a 'learn by doing' institution.

Graph 2



Concerns

Loans and the PPCR

The decision taken by the sub-committee at the November meeting does not fully address many of the concerns raised by civil society groups over the use of loans at the PPCR (see *CIFs Monitor* 4, 3, 2). Civil society groups and developing countries have consistently pointed to the 'polluter-pays-principle', which recognises that financing for adaptation is not donated to developing countries as aid, but is owed as compensation from high-emissions countries to those most vulnerable to climate impacts, and so should be delivered as grants. Furthermore, the new ruling only corresponds to PPCR resources, finance provided by donor governments, and does not apply to co-financing from the MDBs. In some PPCR programmes the MDB loans make up the majority of programme financing.

At the November meeting civil society observer ActionAid read a statement from civil society groups in the developed countries constituency arguing that the PPCR should offer only grants. "Although loans in the PPCR are technically 'optional', in the absence of greater grant financing from developed countries, and in the context of immediate climate impacts, countries with urgent adaptation need, even countries which have spoken out against loans for adaptation, are put in the position of accepting loans for adaptation". The statement also outlines an important link between debt distress and future adaptation: "High levels of debt threaten the ability of countries to realise development goals, further pushes countries and communities into poverty, and, therefore, actually *weaken* the capacity of states to deal with the impacts of climate change."

Loan to Jamaica

At the meeting in November Jamaica was allocated $10 million in loans. However, this decision has further highlighted inadequacies in how the PPCR, and the World Bank, applies its Debt Sustainability Framework (DSF). Because Jamaica is classified as a middle-income country it does not qualify to be assessed using the Debt Sustainability Framework for Low-Income Countries. This means that it does not generate a score of vulnerability to debt distress, either low, moderate or high. Therefore it will not qualify to be judged under the PPCRs new ruling on debt sustainability. However, Jamaica is one of the world's most highly indebted countries. A 2010 IMF assessment of Jamaican debt estimated that public debt stood at 139 per cent of GDP. When the PPCR loan was announced UK NGO Jubilee Debt Campaign said: "The Jamaican government already spends $450 per person annually on debt repayments, more than on education and healthcare combined. The World Bank and UK government should be cancelling Jamaica's debt, not adding to it with new unjust climate loans."

Gender at the PPCR

The CIFs administration unit and the MDBs had put together a roster of experts available to independently review SPCRs. However, sub-committee members have complained that the current list of experts has very little gender parity. Australia and Canada said that of the 34 experts only four were women, and asked that the administrative unit and the MDBs revisit the list to ensure a more appropriate gender balance. The lack of gender focus at the CIFs has been consistently raised by both sub-committee members and civil society groups (see *CIFs Monitor 4*, *3*).

Forest Investment Program (FIP)

Background

The FIP is a financing instrument aimed at assisting countries to reach their goals under Reducing Emissions from Deforestation and Degradation (REDD+)[1]. It aspires to provide scaled up financing to developing countries to initiate reforms identified in national REDD+ strategies, which detail the policies, activities and other strategic options for achieving REDD+ objectives. It anticipates additional benefits in areas such as biodiversity conservation and protection of the rights of indigenous people.

Updates

Resources and investment plans

See graph 2 on page 7 for status of contributions to the FIP.

The FIP has eight pilot countries. Of these Burkina Faso, Democratic Republic of Congo (DRC), Laos and Mexico have all completed joint missions and programming processes and submitted investment plans for endorsement. At the October FIP sub-committee meeting the Laos investment plan was endorsed in principle with $30 million in grant funding, subject to clarifications. After complementary information was submitted and no objections raised, it was approved in January 2012. Furthermore, $60 million in grant and credit funding was approved for Mexico.

The remaining four pilot countries, Brazil, Ghana, Indonesia and Peru, are continuing the programming process and preparing their investment plans with support from MDBs. The Brazil investment plan will be considered for endorsement at the meeting in May 2012, and the Ghana and Indonesia plans will be presented for discussion and feedback. Indonesia and Ghana decided not to formally submit their plans for the May meeting, but plan to do so at the November meeting of the sub-committee. Peru is in the early stages of developing its plan, having held its first joint mission in March, but may also be seeking to prepare its plan for the November meeting.

Dedicated grant mechanism for indigenous peoples and local communities

The proposed design of the grant mechanism, aimed to enhance capacity and help facilitate the active participation of affected communities in FIP pilot country REDD+ activities, was approved in the sub-committee meeting. This include a global component that will focus on knowledge management, exchanging good practices and lessons learned on how to effectively implement REDD+. It was requested that synergies should be explored with similar efforts supported by other REDD+ institutions such as the Forest Carbon Partnership Facility (FCPF) and the UN-REDD Programme, and reported back on in the next meeting. Further development of proposals required for approval of FIP funding and operationalisation of the mechanism was also requested.

A request of $50 million to finance the mechanism was noted. Out of this $600,000 was requested for MDB project support and supervision services for the global component. Australia raised questions regarding the MDB share of the requested amount since it “exceeds the benchmark range”.[v] IBRD responded that the mechanism is “a unique, complex and innovative program” and that “IBRD has to take on a substantial portion of the preparatory work, which is normally carried out by country counterparts in standard projects.” No further objections were raised and in January 2012, the sub-committee approved a first tranche of $300,000 for “services to be provided by the World Bank.”

[1] UN-REDD defines REDD+ as follows: “Reducing Emissions from Deforestation and Forest Degradation (REDD) is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development. ‘REDD+’ goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks.”

Concerns

Quality review of investment plans

A revised proposal for the quality review of investment plans was discussed (see *CIFs Monitor 4*). A proposed procedure was agreed, where the review should be prepared by two reviewers selected from the FCPF roster of experts, who should be proposed by the CIF Administrative Unit early in the preparatory process of the investment plan. Civil society groups had submitted comments in a letter in August 2011 (see *CIFs Monitor 4*), and noted that the new proposal includes improvements, such as the limitation of the role of MDBs and country governments in picking the reviewers, however, it fell short of the call for at least three reviewers with different expertise. CSO developed country observer Greenpeace said: "There's a risk that reviewers are not truly independent. With only two reviewers per country and given the nature of the rooster, not so many indigenous peoples and civil society on there, there is a risk that reviews may not cover expertise in different areas, such as tenure rights and indigenous peoples."

Laos investment plan

The Laos investment plan provoked a lengthy discussion at the October sub-committee meeting. A number of concerns were raised, including on the concept of "smallholder" schemes for plantations. It was argued that caution needs to be taken with regards to this concept, since rather than helping local communities, it can make them dependent on the large companies to which they have to sell their crops. According to Greenpeace, in other countries "local farmers are forced into these schemes and forced to plant certain crops that the market demands, rather than what would improve their own livelihoods. They are also highly dependent on the prices, which are set by the corporations, and often end up impoverished." As a result of the concerns, the plan was only endorsed "in principle" in the meeting, subject to supplemental documentation. This included clarification on how the target to attain 70 per cent forest cover in Laos fits with the national development strategy in regards to other sectors (such as mining and hydro) and responses to questions and comments raised.[vi] The additional documentation was circulated in December, and since no further objections were noted the investment plan was approved in January 2012.

Mexico investment plan

The Mexico Investment Plan was endorsed at the October sub-committee meeting with $60 million ($32.16 million in grants and $27.84 million in loans), subject to consideration of comments submitted by members. As part of this $42 million ($25.66 million in grants and $16.34 million loans) was immediately requested for the climate change project, as well as $420,000 for project support and supervision services by the World Bank, which was tentatively agreed provided no objections were received within a deadline of no more than four days after the sub-committee meeting. It was noted that the expedited procedures for this funding was exceptional and should not set a precedent.

Despite the extremely tight timeline, US NGO Bank Information Centre (BIC) submitted comments at the request of the Mexican civil society organisations Red Mexicana de Organizaciones Campesinas Forestales (Red MOCAF), and SAKBE, Comunicacion y Defensa. The submission raised a number of issues mainly around consistency with the national REDD+ process, including concerns that the framework provided by the Strategic Environmental and Social Assessment set up for REDD+ would not be used.[vii] Regardless of these concerns, the funding was approved shortly after the deadline with only a note referring to the BIC submission, but without associated actions or clarifications. As a result BIC, Red MOCAF and SAKBE re-submitted their comments in January 2012. The IBRD responded largely in agreement with the points raised and noted that further dialogue would be conducted in Washington and in Mexico.

Peru investment plan

A mission went to Peru in late March. However, NGO Global Witness raised concerns that the mission's terms of reference (TOR) was not circulated until "three working days before the beginning of the joint mission and made publicly available, in English only, on the CIF website two working days before the mission." TORs are supposed to be available four weeks before missions, according to FIP rules. Furthermore, Global Witness noted that the composition of the mission team lacked representatives from civil society or indigenous peoples, despite the guidelines saying that joint missions "should include key government, non-government, including indigenous peoples and local communities; and private sector stakeholders as well as other development partners."

The IDB responded and apologised for the delay in posting the TOR, but pointed to the fact that the notification of the mission itself was circulated nearly one month in advance and that stakeholders had been fully included in the mission. Furthermore, it said that since "the FIP is a country driven process, any decisions on participation rest with the government of Peru." However, Global Witness said that a notification is not a substitute for providing TORs in advance, and while they met with indigenous groups, they did not attempt to do so in an appropriate and comprehensive way.

Indonesia investment plan

In mid March, several NGOs, including debtWATCH Indonesia, sent a letter to the World Bank, the ADB, the IFC and the Ministry of Indonesia to raise concerns about the draft investment plan, stating that it "is far from an attempt to apply the principles of good governance, democracy and human rights in Indonesia."[viii] The letter outlined a number of problems with the process and calls for improvements, including documents to be available in Indonesian and local languages, an extension of the consultation deadline, space for local communities and indigenous peoples to participate fully, broad availability of documents, participatory processes and clarification of its relation to the national REDD+ strategy. The NGOs conclude by demanding that "the whole process related to FIP be postponed until the occurrence of synchronisation with the process of establishing a clear national strategy that can actually guarantee to save the remaining forests of Indonesia and improve governance in the forestry sector."[ix]

The Joint FIP team of the government of Indonesia and MDBs responded that the translation was in process, but that it "takes time", and that approximately two weeks would be provided once the draft was posted on the Ministry of Forestry's website. The letter also pointed to workshops and consultations already completed and more specific consultations planned during the preparation of the more detailed design of each project. The response was not met favourably by the NGOs, who expressed their disappointment in an early April letter, stating that "we cannot accept the excuse of limited time and technical difficulties, as the complexity of the issue and the variety of stakeholders are well known and should have been anticipated." The letter makes references to World Bank and ADB policies, including the Bank's translation framework. It also noted that "simply posting the document on a web page will not guarantee real involvement of the public and affected communities" and that "two weeks are far from sufficient to ensure real consultation and participation, in particular when it comes to the involvement of affected local communities." It also raised issues around transparency. The letter concludes by repeating the requests from the previous letter and again called for the FIP process to be postponed.

Scaling up Renewable Energy Program in Low Income Countries (SREP)

<u>Background</u>

SREP was approved in May 2009 and launched at the Copenhagen climate summit in December 2009. It aims to catalyse scaled up investment in renewable energy markets in low-income countries by enabling government support for market creation and private sector implementation. At the June 2010 SREP sub-committee meetings six countries were selected for pilot programmes: Ethiopia, Honduras, Kenya, the Maldives, Mali and Nepal. A seventh country, Tanzania, was added in March 2012.

Updates

Resources

See graph 2 on page 7 for status of contributions to SREP.

Three new investment plans were endorsed at the sub-committee meeting in November 2011 Honduras was allocated \$30 million, Nepal \$40 million and Mali \$40 million "in principle". An additional intersessional sub-committee meeting took place in March, where the Mali and Nepal investment plans were fully endorsed and the Ethiopia investment plan was endorsed "in principle". With Kenya's endorsement at the intersessional in September 2011, the Maldives is now the only country yet to submit an investment plan. Furthermore, Tanzania was officially welcomed to the scheme as a new SREP pilot country.

Concerns

Costs

One of the main discussions in the November meeting was on the cost of producing an investment plan. The World Bank claimed that it costs about \$1 million per plan, which came as a surprise to the donors. The Bank responded that it's expensive since it takes 12 and 18 months to produce a plan. The Bank's fee is \$388,000 per country and plan, and the remaining is the amount the host government requests, at an average of about \$300,000. The donors were not pleased with these high costs and asked for a more accurate assessment of costs, noting that much more transparency on investment plan financing is needed. Furthermore, it was agreed that for pilot countries with low risk of debt distress no more than 70 per cent of agreed funding should be grants. For countries with moderate or high risks all can be drawn from grants, except for private sector projects.

SREP reserve list

When SREP was established in 2010, \$300 million had been pledged. Indicative allocations for the six pilot countries were agreed, amounting to a total of \$240 million should all countries request the upper limit, with the remaining \$60 million set up as a reserve. The reserve currently stands at \$56 million, and in the November meeting it was discussed how to allocate these funds. Guiding criteria was agreed for existing pilot countries: readiness to effectively absorb additional resources and country ownership; and project design in terms of engaging and leveraging investment of the private sector and utilizing diverse and innovative approaches and instruments.

Furthermore it was agreed that "it would be beneficial for the countries on the reserve list of programmes to begin work to develop investment plans for scaling up the use of renewable energy, recognising that resources may not necessarily be available to finance those plans under the SREP but that financing may be available through other sources of climate finance." It was agreed that no more than three projects and no more than one project per investment plan should be funded from the current reserve. The reserve list was discussed further in the intersessional meeting, confirming the priority order of the list as follows: (1) Tanzania, (2) Liberia, (3) Yemen, (4) Armenia, (5) Pacific region, (6) Mongolia. Furthermore, Tanzania was officially welcomed to the scheme as the seventh SREP pilot country and made eligible for funding.

Kenya investment plan

Kenya's investment plan was endorsed at the intersessional meeting in September 2011 (see *CIFs Monitor 4*), with approval of a first tranche of funding for MDB preparation and supervision services for a geothermal project and a mini-grid power system project. However, concerns about the plan remained. In a submission prior to the November sub-committee meeting, NGO Transparency International (TI) noted that Kenya's plan is "not innovative at all" and "seems to be a way to fund a government geothermal project". It pointed to a lack of an underlying incentive mechanism to ensure catalytic effect on renewable energy and that the "mini-grid is not economically feasible whatsoever." TI called for "a more clear objective laid out and followed" and for SREP to "set much more stringent guidelines of what it wants if it intends to play the role of a catalyst."

In the November meeting, the geothermal project was discussed and the Kenyan Government and African Development Bank (AfDB) were asked to further develop the proposal, taking into account comments from the members and particularly focusing on the following improvements: a) enumerate the potential development benefits in the project document, b) elaborate on the fiduciary risks and modalities, and c) address the scaling-up of the project to 400 megawatts.[x]

While Switzerland expressed support for the project, it asked for further information regarding access to electricity for the poor and clarification on concerns regarding fiduciary risks related to the size of the project, pointing to the allocation of 80 per cent of Kenya's SREP funding for a single project. Furthermore, the Netherlands raised concerns about institutional risk and the balance between public and private sector players and roles, which they felt remained unaddressed, including how "private sector capacity can best be mobilised and catalysed". It also raised issues around corruption, referring to the October 2011 issue of *The Nairobi Law Monthly*, which presented geothermal energy as "the next frontier for kickbacks for Kenya's corrupt elite". In response, Kenya submitted further documentation and due to no objections the project was approved in mid November with $25 million in funding, although with requests to continually update the committee on how the issues raised were being resolved.

Honduras investment plan

The Honduras investment plan was discussed and while broadly welcomed, some discussion ensued where the UK asked for more clarification on transformative impacts regarding access to energy and how it improves livelihoods, emphasising the importance of gender and social inclusion, in particular with regards to hydropower. Others asked for elaborations on related subjects, such as the links between clean energy and social and ecological impacts, and planned technology for off grid electricity access programme for rural households. Japan pointed out the importance of coordination with NGOs and communities. The plan was endorsed with a request to take committee members comments into account.

Mali investment plan

The Mali investment plan was endorsed "in principle" in the November meeting, subject to further information on questions raised by sub-committee members, and the requested funding of $40 million was noted. Furthermore, a first tranche of preparation grants and for project preparation and supervision services were approved for the AfDB and the World Bank. In the meeting, TI asked about the role of consumers in developing the plan since they are the potential energy users/recipients in rural areas and their capacity to engage to ensure that energy prices do not drastically increase beyond the grant support once the subsidy is gone. The Mali delegation responded that consumers are engaged in the development and have the capacity to organise and advocate for affordable energy prices.

While Switzerland officially supported the endorsement, it noted a number of reservations to be addressed in the revised version and discussed at the next sub-committee meeting. This included concerns that the costs were exaggerated, the need to include the private sector for investment purposes, and "strong reservations regarding the promotion of biofuels". It also promoted the use of off-grid solar power, rather than grid-based options, to improve energy access.[xi] Before the March intersessional sub-committee meeting Mali submitted additional information responding to the concerns, including breakdown of costs and a clarification that "biofuel based rural energy schemes are building on a small scale, non-industrialised, village based approach". It also questioned the benefits of solar power, and argued for mini-grid systems. The plan received full endorsement in the meeting.

Nepal investment plan

Nepal's investment plan was discussed in the November meeting and the two first components were endorsed. Switzerland officially supported the endorsement, however, it raised a number of comments, including clarification of the "transformational impact" of small hydro power.[xii] Norway also confirmed its support, but with further questions and comments for Nepal to take into consideration, including a call for Nepal "to support a more ambitious and comprehensive plan to improve the enabling environment for private investment in small-, medium and large-hydropower." A revised proposal was endorsed in the intersessional meeting in March.

Ethiopia investment plan

The Ethiopia investment plan was endorsed "in principle" at the intersessional sub-committee meeting in early March with a total of $3 million approved in SREP funding as preparation grants for three projects. Full endorsement is subject to response to questions by sub-committee members. This include concerns from Switzerland about the focus on large scale projects and whether this addresses the key objective of poverty alleviation, questioning the inclusion of export of electricity since it "fails to enhance the domestic development, which in a country with 77 million still mostly poor inhabitants is crucial."[xiii] Several countries questioned the focus on wind power since Ethiopia already has two wind parks being developed, with the UK wondering whether this element could therefore be considered "transformational". Some suggested other options, with Switzerland pointing to solar as a better option for increasing energy access, rather than grid-based development. Furthermore, several countries questioned the focus on public rather than private mobilisation of investment, with the US calling for all plans to be clearer on how to maximise private sector participation.

End notes

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[i] See *Semi-annual report on the operations of the CTF, October 2011* (2011)
[ii] http://www.internationalrivers.org/follow-money/world-bank
[iii] See *A River under Arrest* (2011) Him Dhara, available at http://www.himdhara.org/2011/12/14/a-river-under-arrest-critique-of-the-luhri-hydro-electric-project-on-the-sutlej-rive/
[iv] *Power to the people? How World Bank financed wind farms fail communities in Mexico* (2011) World Development Movement, available at http://www.wdm.org.uk/climate-justice/power-people-how-world-bank-financed-wind-farms-fail-communities-mexico
[v] Comments available at http://www.climateinvestmentfunds.org/cif/workingdocuments/4750
[vi] Comments available at http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/lao-pdrs-fip-programming
[vii] Comments available at http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/mexicos-fip-programming
[viii] http://www.bicusa.org/en/Article.12610.aspx
[ix] http://www.redd-monitor.org/2012/04/06/ngos-demand-that-forest-investment-program-in-indonesia-is-postponed-until-demands-are-met/#FIP
[x] All comments from committee members and observers are available at http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/kenyas-srep-programming
[xi] All comments from committee members and observers are available at http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/malis-srep-programming
[xii] All comments from committee members and observers are available at http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/nepals-srep-programming
[xiii] All comments from committee members and observers are available at http://www.climateinvestmentfunds.org/cifnet/?q=country-program-info/ethiopias-srep-programming