Meeting of the Global Climate Action Programs (GCAP) Sub-Committee

Washington, D.C. and Virtual

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CIF RENEWABLE ENERGY INTEGRATION (REI) PROGRAM UPDATE AND ADDITIONAL FUNDING MODALITIES

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PROPOSED DECISION

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1 Status of REI Program

1. The Renewable Energy Integration (REI) Program was officially established as a program of the Climate Invesment Funds (CIF) in April 2020 by a decision of the CIF Joint Trust Fund Committee. REI was developed as a response to calls for increased climate finance flows to prepare national and regional energy systems to absorb greater levels of renewable energy generation, and as a vote of confidence in the ability of the CIF to leverage significant levels of climate finance through its partner Multilateral Development Banks (MDBs).

2. Over the ensuing 18 months, the CIF Administrative Unit (CIF AU) worked with the MDBs to design the program and a call for interested countries to apply to participate by submitting Expressions of Interest (EoIs). The program attracted significant interest from the potential recipient countries with 54 EoIs submitted. Those EoIs were then reviewed and ranked by an Independent Expert Group (IEG) identified jointly by CIF AU and the MDBs and selected by the GCAP Sub-Committee. This process unfolded at an accelerated pace to ensure that the program would be ready to launch in time for COP 26 in November 2021. In a parallel process, the REI design document was completed and approved by decision-by-mail by the newly formed Global Climate Action Programs (GCAP) Sub-Committee.

3. At the intersessional GCAP meeting held in October 2021, the Sub-Committee, based on the recommendations of the IEG, selected five countries in a first phase of the program to develop Investment Plans (IPs) to be funded up to USD 70 million, plus five additional countries to develop IPs that will be funded as more resources become available in a second phase. The Phase 1 countries are **Ukraine, Fiji, Colombia, Kenya, and Mali**, and the Phase 2 countries are **Costa Rica, Indonesia, Turkey, India, and Brazil**.

4. The REI Program was officially launched November 4th, 2021 at COP 26 with the announcement of the selected recipient countries and roughly USD 300 million in contributions from the Netherlands, Switzerland, and the United Kingdom. Following the REI launch, CIF's MDB partners began coordinating with each other and the selected countries to start the IP development process, which can last for up to 18 months from the date when the countries are selected[1].

5. In addition to selecting the first two phases of countries to participate in REI at the October 2021 intersessional meeting, the GCAP Sub-Committee acknowledged "*that all countries that have submitted an expression of interest in the Program could benefit from support, and requests the CIF AU, in collaboration with the MDBs, to prepare a proposal for its review and consideration, on appropriate modalities to provide such support.*" This document responds to that request by presenting a clear picture of the resource constraints that the REI Program faces and presents a suite of modalities for the use of additional resources, should they become available.

[1] The CIF Pipeline Management and Cancellation Policy, approved November 2020, states that "Investment plans…must be submitted for endorsement to the relevant CIF governing body within 18 months from the date the CIF pilot countries are selected." Countries must submit their IP for consideration by the end of March 2023.

2 Participation Demand and Resource Demand

6. The key issue looming over consideration of additional modalities for the REI Program is the disparity between country demand to participate and resources available to support them. Demand for the REI program has been extraordinarily high and resources pledged to date are enough to support only a few countries. The result is a limited set of options available to increase the scope and impact of REI beyond selected countries. Below is a brief overview of country demand to participate in the program and an assessment of the demand for resources from the selected countries.

2.1 Demand from Developing Countries

7. When the call for EoIs was released, it was anticipated that around 15 to 20 countries would apply. By the end of the application period, 54 total EoIs were submitted, including 50 country-level and four regional ones, covering 60 countries in total[2], far exceeding expectations when the process began.

8. Among the EoIs, there is strong diversity in country size, geographic location and income level. For example, both Low-income Countries and Small Island Developing States are well-represented with 11 and eight applicants respectively. There was robust demand from all regions, with the largest number of applicants coming from Sub-Saharan Africa at 21. The selected ten countries also show strong geographic and income-level diversity, with no region having more than two countries represented.

9. The high level of demand had a significant impact on how the IEG evaluated and classified country submissions. Fifty-four separate applications would be challenging to review in most cases, but this task was further complicated by the accelerated review timeline necessary to prepare the program for launch at COP 26, meaning the IEG did not have time to ask for additional information from specific countries or conduct follow-up interviews. In addition, the IEG wanted to ensure that the final pool of recommended countries was balanced amongst regions and other contextual considerations, which it concluded would necessitate a high number of countries to be included in the final recommended list. Nineteen out of the 54 submitted EoIs were presented to the GCAP Sub-committee for invitation to prepare and develop IPs. See Table 1 below.

[2] For a fuller breakdown of countries that submitted REI EoIs, please see REI Program Independent Expert Group Report.

Table 1. Recommended Ranked List of Countries from REI IEG

	Country / Region	Total Score (max 100)
1	Ukraine	81
2	Fiji	80
3	Colombia	76
4	Kenya	74
5	Mali	73
6	Costa Rica	72
7	Indonesia	72
8	Turkey	72
9	India	71
10	Brazil	70
11	REGIONAL: Eastern Carib	66,5
12	Sri Lanka	66
13	Dominican Republic	65
14	Morocco	65
15	Nepal	64
16	Lesotho	64
17	South Africa	61
18	Tunisia	61
19	Bangladesh	60

2.2 Resource Demand

10. Following the approval of the REI Program by the Trust Fund Committee in 2020, the CIF AU worked with the MDBs to determine an indicative level of resources needed to ensure a successful program. The CIF AU and the MDBs agreed to set the presumptive indicative allocation level per country at a range of USD 100 and 150 million, which was included in the EoI submission materials. Countries applied with the assumption they would have an opportunity to access this range of resources for their IP.

11. Contributions of USD 100 million from the Netherlands, USD 16 million from Switzerland, and approximately USD 190 million (GBP 150 million) from the United Kingdom constitute the initial capitalization of the REI Program at just above USD 300 million. Recognizing the need to ensure that multiple countries could participate in Phase One of the program and that some of the top ranked countries may not require large IPs to achieve significant results, the GCAP Sub-committee decided that a notional amount of up to USD 70 million[3] would be a sufficient level of resources for the first round of IPs.

[3] Phase 1 countries can request up to USD 70 million, though it is expected that not all of them will need the full envelope. Any additional funding needs can be noted in IPs, but no decisions on additional resource allocations for Phase 1 countries have been made at this time.

12. In the discussions during the GCAP Sub-committee meeting, some members asked for an assessment of the anticipated size of the envelope for Phase 1 countries. These assessments usually take place during scoping missions. To date, while all ten participating countries have been contacted by the MDBs, only two scoping missions have occurred. The current status of the five Phase 1 countries is as follows:

- **Colombia** anticipates requesting **USD 70 million** to support its IP, which may be ready for review and endorsement by the next GCAP Sub-Committee meeting to be held in late 2022. If more resources were made available, Colombia projects its IP could implement an additional USD 70 million.

- **Fiji** concluded its scoping mission in May with ADB, IFC and WB. Based on the first round of consultations with the Ministry of Economy, other government agencies, and the private sector, the country is interested in fully participating in the REI Program and looking at how to develop a robust IP that can maximize **up to USD 70 million** allocated resources for the country and submitting.

- **Kenya's** scoping mission is currently being planned for late June or early July, and the likely size of their request is uncertain.

- **Mali** anticipates requesting **USD 70 million** to support its Investment Plan, which is expected to be ready for review before the 18-month deadline. Despite recent socio-political changes, the country remains committed to the IP process and discussions and preparatory activities are ongoing at a technical level. A virtual scoping mission is planned.

- The war in **Ukraine** has delayed the IP process indefinitely. While the situation has most likely changed the sector's status on the ground, when compared to the country's original Expression of Interest, before the war began in March, discussions on the IP between the MDBs and the Government were progressing well.As such, it is expected that REI resources could be in high demand during the recovery and reconstruction phase. EBRD suggests that maintaining the **USD 70 million** envelope for Ukraine would send a strong signal of political support and avoid any reputational damage from withdrawing the resources.

13. While there were no decisions made on the size of the envelope for Phase 2 countries, those IPs are currently unfunded[4], but they are proceeding with the IP process with an expectation of additional resources becoming available at some point in the future. No scoping missions have yet occurred.

[4] Phase 2 countries are currently eligible for Investment Plan Preparation Grants of USD 500,000, the same amount available to Phase 1 countries.

3 Modalities for Resources Prioritization

14. The REI Program is in a unique position of trying to strike a balance between providing predictable support to some, if not all of the ten countries selected to participate, and the 44 not selected. For Phase 1 countries, there are enough resources available to support every IPs, provided not all ask for the maximum of USD 70 million. For Phase 2 countries, there is a strong expectation from national governments and MDBs that if IPs are developed, they will be supported with sufficient resources. Moreover, there is clearly very significant demand to participate in REI, but efforts to increase access to non-participants at this time would prevent the program from fulfilling the obligations to current participants.

15. The decision for the GCAP Sub-committee to consider is how to prioritize the use of existing resources and new resources should they be made available. The CIF AU and MDBs propose for consideration of the GCAP Sub-Committee a primary category with two modalities for supporting investment plans and a secondary category with two modalities for increasing country access to resources:

- Supporting Investment Plans
  - Modality 1: Fund All Phase 1 Investment Plans First
  - Modality 2: Fund Phase 2 Investment Plans
- Increasing Country Access
  - Modality 3: Dedicated Private Sector Window
  - Modality 4: Technical Assistance Window

3.1 Modality 1: Fund All Phase 1 Investment Plans First

16. The decision to support Phase 1 IPs at USD 70 million was taken in part because of the available pool of resources, and also because of the size of the economies ranked in the top five. The selection of countries, however, was made with an expectation that most if not all selected countries would be able to complete an IP and submit it for approval before the 18 month design period ended. There is the possibility that not all IPs will be submitted for approval within this timeframe, potentially leaving a large amount of unallocated resources waiting for decision to direct their use.

17. With this modality, the GCAP Sub-Committee would decide to keep resources fully available to Phase 1 countries until it makes a decision to allocate resources to other modalities, meaning that only Phase 1 countries are eligible to request the current pool of **USD 300 million in resources**. This modality is most in line with current REI decisions.

3.2 Modality 2: Fund Phase 2 Investment Plans When Ready

18. As mentioned previously, Phase 2 countries are moving ahead with the IP process despite no funding currently being available under the assumption that resources will be made available

in the future for submitted IPs. Four out of the five Phase 2 countries are considered major emerging markets, and will likely require USD 100 to 150 million to have any chance of impacting their domestic energy systems. This option would prioritize the funding of Phase 2 country IPs with any resources available from the current pool if it is determined that Phase 1 countries cannot submit IPs during the 18-month development period. It would not preclude Phase 1 countries from submitting IPs after that time window, but funding of the IP may depend on additional resources.

19. The GCAP Sub-Committee would need to decide the sequencing (e.g first-come, first served) and funding level at which those IPs would be funded. The Sub-Committee could also decide to allocate additional IP Preparation Grants beyond what Phase 2 countries are already eligible to receive, which some MDBs have said would be helpful. As stated previously, four Phase 2 IPs would likely need USD 100 to 150 million and one will likely need USD 60 to 100 million, so the level of resources needed to fully meet this commitment is **USD 460 to 700 million**.

3.3 Modality 3: Dedicated Private Sector Window (DPSW)

20. As discussed in the REI Program design document, a DPSW can support a programmatic approach that can identify priority thematic and technology-based private sector funding opportunities, in all countries deemed eligible for CIF funding, by the relevant governing body. This approach seeks to harness CIF's comparative advantage in enabling innovation by supporting MDBs in pursuing frontier approaches in difficult contexts.

21. The CIF experience with the Dedicated Private Sector Program (DPSP) in the Clean Technology Fund (CTF) has shown that it can be a powerful way to pursue investments outside the structure of IPs. CTF has effectively used the DPSP model to tackle thematically focused areas of frontier technology like geothermal and energy storage. The DPSW would expand the flexibility of the REI Program to adapt to demand-driven scenarios across both IP and non-IP countries and increase its ability to generate knowledge spill-overs where successful initiatives piloted in one country can be replicated across others. It can play a critical role in replicating and scaling solutions that can accelerate the integration of renewable energy and increase flexibility in the targeted energy systems.

22. For the REI Program, a DPSW could support both select public and private sector projects focused on specific technologies paired with capacity building interventions like smart grids or increased grid interconnections. This window of resources could also be made available to the full list of IEG recommended countries (19 countries and one regional plan) or to all 54 EoIs submitted for the program, as some MDBs prefer.

23. In addition to more traditional DPSW-type projects, resources could also be directed to support innovative climate venture interventions that could be transformative in local and developing country markets in line with those proposed in the CIF Climate Ventures proposal from January 2022. Venture projects or programs can be structured to address direct or indirect investments, marketplace enabling activities, knowledge management, and other approaches to ensure activities support a programmatic approach to climate innovation in

target countries or regions[5]. Following the January 2022 Joint TFC meeting, the CTF and SCF TFCs requested the CIF AU and MDBs to explore the potential pipeline of projects that could be supported by this window under REI. Below are examples of potential CCV projects from ADB and IDB:

- ADB – Early-stage companies can benefit from seed/series A type investments. For example, e-mobility public transport services rely on grid power systems and ICT systems to provide power supply, network management, and ticketing services. There are more and more start up ESCOs specializing in specific areas/technology and bespoke solutions would benefit from CCV-type support.
- IDB – IDB Lab (the innovation laboratory of the IDB) has recently approved "ILumexico: Innovative Solar PV Energy Services for the Poor and Vulnerable." Ilumexico is seeking a US$1.5M revenues-based loan to complete an US$8M round (equity + debt). This investment will transform the company's capacity to serve families in LATAM at scale with standardized processes and a world-class team. Ilumexico will consolidate the recurring revenue service business in Mexico at scale, invest in Joint Ventures, and create the pipeline of new projects through R&D and Innovation.

24. The REI DPSW would be allocated among MDBs as determined by the MDB Committee, using the CTF DPSP as a benchmark, and projects would apply for resources on a first-come, first serve basis within each MDB's notional resource envelope. At least **USD 100 million** would be needed to launch this modality and, moving forward, between **10 to 30 percent of the total pool** of REI resources to make it viable.

3.4 Modality 4: Technical Assistance Window

25. One of key challenges in ranking countries identified by the IEG was assessing the technical merits of some proposed integration interventions, leaving the IEG the impression that "*many countries do not have yet a clear picture of the flexibility options that they will be needing in the future.*" The IEG observed that many of the EoIs would have been more relevant for other CIF programs, like SREP or PPCR, or regular MDB financing because they were focused on increasing renewable generation or grid infrastructure improvement – because their overall renewable energy generation was still relatively low. These conclusions suggest that many countries could benefit from some in-depth technical assistance to identify the integration issues that they will face in the near future. This could help build capacity to enhance current energy system management while anticipating constraints to future renewable generation growth.

26. This window could provide access to REI for countries and regions that were not selected to develop an IP. Each country that participates in the window could receive up to USD 1 million in TA, allocated similarly to an IP Preparation Grant. This would require a pool of **USD 44 million** to cover all non-selected countries and regions that submitted an EoI.

[5] For more discussion on potential ventures activities, please refer to the CIF Climate Ventures document.

27. Table 1 below shows approximate estimated funding ranges that would be needed to support the respective modalities either by themselves or in combination with other modalities. For example, less than or up to USD 100 million could be allocated to support one Phase 1 IP (Modality 1), support a DPSW (Modality 3), open a TA window (Modality 4), or distributed among multiple modalities.

Table 1. Funding Ranges Needed to Support REI Modalities

		Modality 1	Modality 2	Modality 3	Modality 4
Amount of Available Resources	<100M			X	X
	>100M <350M	X	X	X	
	>350M <750	X	X	X	
	>750M		X	X	

4 Next Steps

28. Following review of this document, the GCAP Sub-Committee may or may not decide to prioritize one or multiple modalities with existing and future REI resources. It may also decide to wait and review the progress Phase 1 countries have made on IP development at its Fall 2022 meeting to determine if additional modalities are needed to allocate existing resources.

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