

A photograph of a dirt street in a developing area, likely a slum. Several children are playing in the street. One child is riding a bicycle, another is standing with arms raised, and others are walking. The background shows simple buildings and a stone wall. The image has a warm, yellowish tint.

Meeting of the SCF Trust Fund Committee
Washington D.C. (Virtual)
Wednesday, November 18, 2020

COMMENTS AND RESPONSES



SCF Trust Fund Committee meeting 18 November 2020
SREP Operational & Results Report
SCF Risk Report

We thank the CIF Administration Unit for the elaborate SREP Operational & Results Report and for the SCF Risk Report. We have the following Questions & Comments:

1. Resource Availability

- a. According to the SREP ORR Table 2 and Annex 1, the resource availability excluding future resources (i.e. release of currency risk reserves) taking into account the sealed pipeline only is USD 13.0 million grant and USD -9.6 million non-grant.

According to the SCF Risk Report Table 18, these figures are inverted, i.e. USD -9.6 million grant and USD 13.0 million non-grant.

Please clarify which is the correct set of figures.

Thank you for bringing this to our attention. There is an error in the Risk Report, and the SREP ORR is correct.

Additionally, given that grant resources (surplus of USD 13.0 million) may be used to finance projects requiring capital resources (shortfall of USD 9.6 million), this means there is no resource shortfall for SREP's sealed pipeline.

- b. In SREP ORR Annex 1, Investment Income and cumulative Administrative Expenses are listed as per Feb 1, 2016 with respectively USD 9.9 million and USD 14.2 million. What are these respective figures for the period of Feb 1, 2016 to September 30, 2019, which is the date of the resource availability statement? Why are these not expressed in the statement?

Up until Feb 1, 2016, investment income was posted directly to SCF Programs against which administrative budget allocations were made. From Feb 1, 2016, Investment income across all SCF programs has been posted to a notional Admin "account", as required by paragraph 5.3 of the Standard Provisions Applicable to SCF, from which approved Administrative Budget expenses for the Trustee, Secretariat and MDBs are committed. Please refer to Section 6, page 26 of SCF Trustee report for the Admin account summary.

Investment income

- c. In the SREP ORR (Table 1, 2 and Annex 1) an amount of USD 18.0 million is listed as potential future resources from the release of currency risk reserves. Yet in the SCF Risk Report (Table 16), the unrealized currency losses are stated at USD 26.7 million. Please explain these figures. Do they mean that the overall currency risk reserves are USD 44.7 million from which we can expect that USD 18.0 million could be released at the moment the promissory note is encashed if the currency losses do not exceed the present USD 26.7 million by that time? This would however also mean that the currency risk reserve is set at more than 28% of the outstanding amount. Please explain on what basis currency risk reserves are made.



Currency Risk Reserves are restricted for *future* declines in the GBP relative to the USD. The Currency Risk Reserve of USD 18.0 million is restricted to mitigate against future declines above and beyond the already unrealized currency losses of USD 26.7 million. The calculation of the Currency Risk Reserve is based on 15% of the current *unencashed* promissory notes (USD 119.9 million). The SCF Risk Report accounts for the unrealized currency loss of USD 26.7 million based on the exchange rates the day the promissory notes were encashed.

2. Funding vs Pipeline Allocation, Approvals and Disbursements
 - a. As total cumulative SREP funding is USD 775 million as stated and the indicative pipeline allocation (including reserve pipeline) is USD 707 million (Table 3 SREP ORR), whereof USD 27 million is currently unavailable (Table 1 SREP ORR). Please explain the difference of about USD 95 million which is not available for projects (including MPIS costs). How much is administrative costs (whereof special initiatives) and how much is currency losses or reserves? Is there anything else?

Regarding the USD 95M not available for projects, we refer to our reply to your question 1.b. regarding administrative budget allocation. As such, the Admin expenses is pro rata is (37%) of SCF Cumulative Admin Expenses minus USD 7.7m for E&L expenses. Given that, the USD 95M consists of:

Indicative MPIS allocation	19.4
Indicative TAF	5.3
Admin expenses through Feb 2016	14.2
Set aside for Admin	31.9
Admin expenses since 2016*	24.9
Total	95.7

- b. Please provide details of the funding cancellations (of USD 21 million) during the reporting period.

The Cancellation breakdown is as follows:

Project	Amount
Restructured	
Honduras: Honduran Self Supply Renewable Energy	USD 4.04 M
Honduras: Sustainable Rural Energization	USD 1.14 M
Haiti: Renewable Energy for the Metropolitan Area	USD 5 M
Cambodia: National Solar Park Program	USD 1.7 M
Closed	
Armenia: Geothermal Exploratory Drilling	USD 2.3 M
Tanzania: Mini Grids	USD 1.3 M
Cancelled	
Uganda: Decentralized Renewables Development	USD 2.4 M
Uganda: Wind Resource Map and Pilot	USD 1.95 M
PPGs for various projects	USD 1.1M

- c. The activity of MDB approvals slowed down during the reporting period. Is this due to COVID19 or/and what are the other reasons? Is there a growing disinterest from the MDBs and recipient countries for SREP? If yes, why?

There is still interest in recipient countries using SREP funds, as exemplified by the continued existence of a reserve pipeline, despite knowing that the sealed pipeline alone will likely exhaust the existing funds. The MDB approvals slowed slightly this year as the projects under preparation experienced some delays, which were exacerbated due to the COVID pandemic, and as such many expected deliveries have been pushed into 2021.

3. Various

- a. When exactly is the E&I Initiative's learning-oriented evaluation of progress and early outcomes across the SREP program expected to be finalized, i.e. the final report available?

The evaluation is in the early design stages and will move into implementation early next year. We expect it to be finalized by October 2021.

- b. In Table 4 (ORR) listing the endorsed investment plans, we noticed that Uganda is missing. Why is this so and what would be the figures and information for Uganda?

Following consultations between the Government of Uganda and MDBs, a decision to cancel their projects was made, and thus Uganda was removed from the table.

- c. Figure 5 SREP ORR seems wrong (SREP leveraged MDB funding should be greater than private sector if the top of the graphic is correct). Please check and use same colors in both parts of this combined graphic.

Thank you for bringing this to our attention - you are correct. There was a labeling error, and this will be corrected.

- d. With regards to projects under implementation risk (chapter 4.2 SREP ORR and 5.1 SCF Risk Report), are some of these projects at risk of being cancelled? If yes which ones?

Of USD5.4 million in cancelled funds from a project in Honduras, USD 1.4 million are being redirected to support the ERUS Solar Powered Mobile Health Units, as a response to the COVID-19 emergency. We have not received any reports of further potential SREP project cancellations.

- e. COVID19 seems to have caused much delays in the SREP portfolio, but do you expect a lasting impact beyond that? Could that be quantified?

COVID has been impacting not only the SREP portfolio, but all of the CIF's programs. Based on the experience so far, we expect that many projects will experience implementation delays ranging from six to 24 months. Mandated quarantines, social distancing measures and travel restrictions are affecting project implementation timelines due to:

- a. procurement delays;
- b. delays in the mobilization of contractors;
- c. delays in delivery of works and equipment; and
- d. project restructurings and cancellations.

While countries and MDBs have been adapting, at this point we are projecting the impacts to persist for two years.

- f. It is understood that the SREP funding for geothermal projects has been dedicated mostly to the resource identification and confirmation. Results towards the SREP core indicators will however only be achieved by these projects if actual power plants are built. What is the progress on identifying developers and funding resources to build the geothermal power plants which are expected to valorize the geothermal resources identified under the SREP?

Regarding the geothermal projects:

In Kenya - The Menengai Geothermal Development Project funded by the SREP was aimed at undertaking geothermal exploration activities and at developing the steam field to support the future construction of power generation facilities. Estimates coming from early pre-feasibility pointed to a total capacity of 465 MW which would be developed in a phased approach with the first one capped at proving power generation capacity of around 105MW.

Following an international competitive selection process concluded in 2018, the Geothermal Development Corporation selected three private companies to Build, Own, and Operate one power plant each of 35MW.

As of today, one of the three projects reached Financial Close and the other two are progressing well towards completing this important hurdle that precedes the construction phase. The transmission line and all auxiliary infrastructure including the substation are already completed. The negotiations phase of these three projects suffered several delays for various reasons but were mainly caused by delays in the fulfillment of conditions precedent by GDC associated with the Steam Supply and Power Purchase Agreements entered with the private partners. The SREP project played an important role in providing resources to improve the capacity and knowledge of GDC's staff in key areas of the project (i.e. public procurement, drilling, project finance, etc.).

Estimates from the end of 2019 show a total generation power capacity at the Menengai Geothermal field of around 180 MW. Despite the challenges posed by the geological formation of the field, this figure is increasing as GDC continues undertaking exploration activities in the field.

In Nicaragua, the Nicaraguan government plans to give a concession to a private company for the construction and operation of the Cosiguina geothermal project, once the feasibility assessment is completed.

In Ethiopia, for the Geothermal Sector Development Project, the Government of Ethiopia has decided to develop the geothermal plant through, Ethiopian Electric Power, the public developer. The government of Japan, through JICA, expressed interest in financing the geothermal plant

As reported in last year's ORR, in the case of the Armenia Geothermal Exploratory Drilling Project (which closed in May 2019), which had an objective to confirm whether the geothermal resource at the project site was suitable for power generation and, if confirmed, to involve the private sector in the development of the geothermal power plant, drilling took place and confirmed the geothermal resource was not suitable for power production. As a result, geothermal power production was not pursued, and the ORR noted how while the project achieved

its objective of assessing the feasibility of geothermal production, it did not achieve any results against the SREP core indicators.

- g. Concerning Liberia Renewable Energy for Electrification in North and Center Liberia (small hydropower and mini-grids), we took note that the contract for the hydropower part was signed and the procurement for the mini-grids is just before conclusion. Can you now assess the expected savings against the substantial provisions which were made for this project and the proposal on how to use them? We would like to remind that Switzerland recommended to use savings to add solar PV to these mini-grids, taking into account that this would allow to substantially reduce the variable costs of electricity, according to the project application documents then submitted.

The total USD 25 million SREP grant is fully committed, and no savings are expected. Out of USD 25 million, USD 20.83 million is budgeted for mini-hydropower and distribution networks. USD 4.66 million is committed for Component 2 Technical assistance to strengthen rural electrification institutions and regulations and Component 3 Market development of stand-alone solar systems.

The World Bank team and The Rural and Renewable Energy Agency (RREA) agreed that an assessment will be carried out soon to establish the cost-effectiveness of replacing the diesel back-up with solar PV/battery. If found feasible, the assessment will facilitate the RREA's decision to switch to PV/battery. Subject to the RREA decision, the solar PV/battery will be financed with the IDA credit.