

Questions related to SREP semi-annual Operational Report and SREP Portfolio

1. Is our understanding correct that the currency risk reserve is on top and above the incurred currency losses on DFID's promissory note in GBP (which were reduced to USD 28.5 million), i.e. its potential release is at risk only if the GBP depreciates further against the USD?

Response (CIFAU/Trustee)

Yes, available resources are reported as being USD 28.5 million less due to the unrealized declines in the value of the unencashed promissory notes. Available resources are then reduced further by USD 37.4 million for the amount which the Trustee must reserve to mitigate over-commitment risk associated with further declines in the value of the GBP relative to the USD.

2. According to table 2 (p.9) the total SREP portfolio (excluding cancelled or dropped projects) was USD 792.4 million (as of December 31, 2017) and according to Annex 2, USD 54.7 million would be needed to finance the reserve pipeline. According to the trustee's financial report of the SCF, the total contributions and commitments to SREP were USD 752.7 million. Since the difference between the SREP portfolio (which we understand includes the reserve pipeline) and the total contributions is smaller than the total need for the reserve pipeline by USD 15.0 million, is our understanding correct that (as of 31st December 2017) that difference (USD 15 million) should be available to finance projects from the reserve pipeline? Please elaborate on the possibility to finance additional projects given the present funding situation of SREP.

Responses (CIF AU)

Total indicative allocation in Table 2 (USD 792 million) includes SC approvals, sealed and reserve pipelines as well as some projects not under development. Total pledges and contributions to SREP are USD 762 million according to the March 2018 Trustee report. The resource availability table (p. 7), which has considered both the sealed and reserve pipelines for anticipated commitments, shows USD 18.4 million in non-grant potentially available (assuming encashment of PNs) and a shortfall of USD 47.1 million in grant. Since the current reserve pipeline consists of USD 53 million grant and USD 1 million non-grant, this means that assuming encashment of the remaining unencashed PNs and release of current risk reserves, we may be able to add to the sealed pipeline up to USD 6 million in grant USD 19 million non-grant from the reserve pipeline, which may include projects from additional countries (e.g., Madagascar) once their investment plans are endorsed by the Sub-Committee.

3. We understood that certain progress was achieved in discussions with the GCF to get funding for certain projects under the PPCR program. What is the outlook regarding GCF funding for SREP projects?

Response (CIF AU)

We met with GCF colleagues in February and discussed the possibility of GCF financing the unfunded SREP projects. They showed an interest in Ghana, and we provided relevant SREP information in Ghana, including the endorsed investment plans and PPG proposals. We have not heard back since.

From the MDBs' point of view, the main issue affecting their ability to submit funding requests to the GCF of unfunded SREP projects lies in the fact that most of these projects are at early stages in the project development cycle while the GCF is looking for more advanced projects. This was a point made very clear by GCF colleagues during their discussion with the GCF. In addition, projects not benefiting from SREP PPGs may face additional constraints as the GCF PPF is not prioritized towards international accredited entities.

4. What is the meaning in Annex 2 of the list of projects "not under active development"? Why have these projects been dropped from the reserve pipeline? Please explain (with the exception of Nicaragua Geothermal Development which is already explained).

Response (CIF AU)

When projects are "dropped" or are no longer under active development, they are removed from the reserve (or sealed) pipeline. The reasons for projects be placed in the "Not under Active Development" category vary from project to project.

Response (ADB)

The ADB Bangladesh Solar PV mini-grids (\$5 million) project is no longer being pursued as the government has shifted its priority towards on-grid utility-scale RE, including tapping wind potentials. This project has also been dropped from ADB country programming.

Response (World Bank)

The Climate Venture Facility (PSSA) was dropped by the WB in May 2016 due to the absence of a clear project development roadmap two years after the concept was endorsed by the SREP Sub-Committee. The withdrawal of the project from SREP pipeline was reported in the semi-annual operational report in June 2016.

Response (IFC)

For both Maldives WtE and Uganda geothermal projects, the enabling environment remained very weak creating risks and uncertainties for private sector companies. IFC tried many different approaches, but there was no firm expectation that the projects could move forward fast enough.

Response (AfDB)

One will recall that the different types of pipeline (i.e. Sealed, Reserve and Not Under Active Development) were created to respond to the issue posed by the lack of funding. Because the funding needs exceeded the availability of funds in the SREP, projects in the early stages of the development cycle, or facing some complex issues, were included in "Not Under Active Development" pipeline.

That said, the reasons for AfDB projects to be included in this category are the following:

- (i) Kenya Geothermal Project: For a long period of time the Government of Kenya wasn't sure it would pursue this additional project to the original Menengai Geothermal Project. Furthermore, once the lack of funding became an issue impacting the overall pipeline of the SREP, it was decided to downgrade the project to this pipeline category. Recently, the Government of Kenya informed AfDB that it would be willing to receive the SREP amount endorsed to the project, however this is something not possible at the moment given the resources shortfall.

- (ii) **Assela Wind Farm Project:** Following the conclusion of the feasibility studies funded by the SREP Project Preparation Grant (PPG), the Government of Ethiopia decided to source funds to this particular project from other parties.
 - (iii) **Uganda Geothermal Project:** The Government of Uganda informed AfDB it would not prioritize funding from AfDB's only available co-financing window (ADF) for investments in the energy sector despite the SREP endorsement of the Investment Plan. Other factors that lead to the inclusion of this project in this category of pipeline included the need to finalize the implementation of the PPG and the cash shortfall issue.
 - (iv) **Mali Solar PV IPP:** In 2016, the SREP Sub-Committee approved a USD 25 million under the set-aside to a solar PV IPP project in Mali. The project has approved by AfDB Board of Directors and construction is set to start in the coming months. At the time of that approval, our energy experts and the Government of Mali concluded that connecting a second renewable intermittent project to the grid would pose serious issues. The Government of Mali has shown interest in reallocating these resources to another project if resources become available.
5. We noticed that the submission timeframe for all projects for which the AfDB is lead MDB has been extended to June 2020. This notably also concerns one project in Ghana which SECO is interested in co-financing and for which the feasibility study is expected to be completed in the fall of 2018. What is the reason for these extensions?

Response (AfDB)

The date of June 2020 is an estimation of an eventual submission date of the SREP investment component for each project. Since these are part of the reserve pipeline it is noted that without additional resources, or eventual cancelations, these projects will not be submitted to the SREP Sub-Committee for review and approval. The feasibility study of the project in Ghana is ongoing and the completion of the study will likely be postponed to early/mid 2019.

- 6. The SREP sealed pipeline in Annex 2 contains six projects for which submission is foreseen in May and June 2018. How realistic is the submission these projects before end of June 2018?

Response (WB)

The revised submission date for the Lesotho Distributed RE solutions project is October 2018.

Response (IFC)

IFC's three activities scheduled for submission in May-June are progressing moderately. We expect to submit the Haiti proposal (combined investment and advisory) around the end of June. The Ghana and Bangladesh ones are also in works, but both got somewhat delayed due to delays in obtaining certain government approvals: Ghana project has just signed the PPA and is now awaiting a government signature of the final critical component, Bangladesh project is expected to sign the pending government approval within the next 6-8 weeks. If the progress remains steady and as currently envisioned, the projects are expected to be submitted in the early fall.

Response (CIF AU)

Honduras' project with IDB has been submitted.