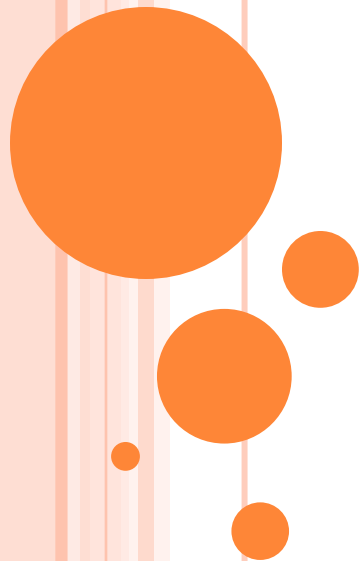


CLIMATE INVESTMENT FUNDS

SREP/SC.2/3
March 4, 2010

Meeting of the SREP Sub-Committee
Manila, Philippines
March 17, 2010

ELEMENTS OF PROGRAMMING MODALITIES AND OPERATIONAL GUIDELINES



CIF



PROGRAMMING MODALITIES

Second Sub-Committee Meeting

CIF Partnership Forum, Manila, The Philippines

March 17, 2010

OVERVIEW

- Challenges and barriers in energy sector in the low income countries
- Objectives and design principles of SREP
- Results Framework for SREP
- Scope and types of activities under SREP
- Investment criteria for SREP Investment Plans
- SREP operational guidelines
- Proposed structure of Investment Plan document



ENERGY CHALLENGE IN LOW INCOME COUNTRIES

- 1.5 billion people in the world lack access to electricity. Access is just 25% in Sub-Saharan Africa and 52% in Asia.
- Nearly 2.5 billion continue to use traditional biomass fuels for cooking and heating.
- In Sub-Saharan Africa, the number of people without access to electricity is projected to rise from the current 590m to 700m in 2030.
- Electricity shortages in many developing countries are growing in frequency and intensity, limiting economic development and poverty reduction efforts.



MAJOR BARRIERS IN ENERGY SECTOR IN LOW INCOME COUNTRIES

- Weak enabling environment
 - Lack policy, legal, regulatory and economic frameworks
 - High transaction costs discourage investment
- Lack of access to capital
 - High risk perception for investments
 - High capital costs
- Need to engage public and private sectors
 - Private sector vital to scale-up
 - Government needs to create appropriate framework for private sector investments
- Lack of affordability
 - Limited financial resources
 - Weak purchasing power



PURPOSE AND OBJECTIVES OF SREP

Pilot and demonstrate,... the economic, social and environmental viability of low carbon development pathways by,... increasing energy access through the use of renewable energy

- Serve as a model in assisting low income countries to foster a transformational change to low carbon pathways by exploiting renewable energy potential
- Overcome economic and non-economic barriers to scale up private sector investments to achieve SREP objectives
- Highlight economic, social and environmental co-benefits of RE programs
- Enable blended financing from multiple sources to enable scaling up of RE programs
- Facilitate knowledge sharing and exchange of international experience and lessons



SREP PRINCIPAL OUTCOME

STRENGTHENING COUNTRY LEADERSHIP IN ENERGY SECTOR DEVELOPMENT

- Deploy clean and renewable energy technologies
- Facilitate enabling environment
- Create institutional and human capacity
- Promote private sector engagement
- Encourage public-private partnerships
- Enable access to finance

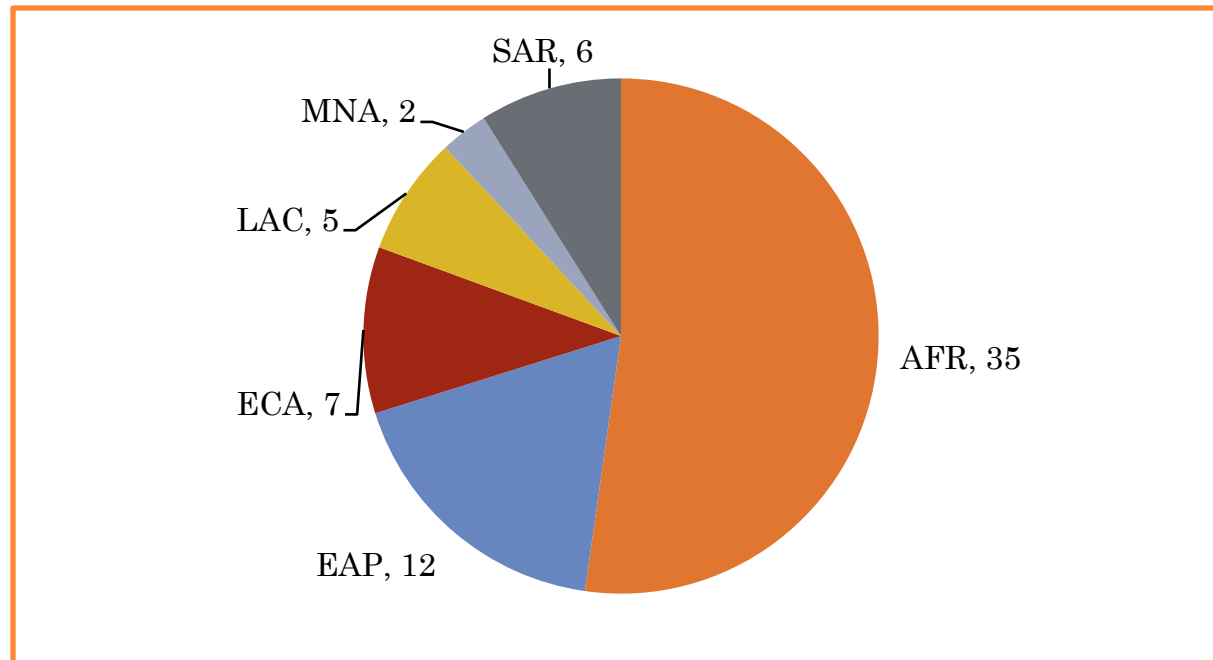


SREP DESIGN PRINCIPLES

- **Adopt a programmatic, outcome-focused approach** -- position RE as a viable alternative with a combination of investment, policy and technical assistance
- **Focus and prioritize RE investments** to add 'value' to economies – Do not spread too thinly across many interventions and technologies
- **Develop/strengthen RE policies** -- be country-led and build on national policies to integrate RE into energy plans
- **Work in a few countries** to maximize impact and demonstration effect
- **Seek wider co-benefits** – economic, social, gender and environmental
- **Ensure effective participation** of indigenous peoples and local communities
- **Ensure 'additionality' for investments** – complementarity with MDB and other development partners resources to achieve scale up impact
- **Ensure adequate funding** – leverage finance from MDB, bilaterals, and other public and private sources
- **Build synergies with other RE programs**, including those of MDBs, GEF and other development partners

SREP ELIGIBLE COUNTRIES

- Low income country eligible for MDB concessional funding (IDA or an RDB equivalent)
- Low income country engaged in active MDB program (lending program and/or ongoing policy dialog)
- Total eligible countries - 67



SCOPE OF SREP INVESTMENT

- Different energy applications – electricity, thermal and mechanical
 - Grid-connected systems, off-grid applications and distributed generation
 - Interconnection improvements for RE deployment
 - Programs at national, regional or sub-regional levels
 - Public- or private-managed or with public-private partnerships
 - TA and other soft activities in support of RET deployment (free-standing and project-specific)
 - Co-financing with other development partners that contribute to programmatic approach at country level
- **RE Technologies covered under SREP**
 - **Solar thermal and photovoltaic**
 - **Wind energy**
 - **Bio-energy (biogas, gasifiers, cogeneration, biofuels)**
 - **Geothermal energy**
 - **Hydropower (≤ 10 MW)**
 - **Hybrid systems (non-RE component to be 20% maximum)**

TYPES OF ACTIVITIES UNDER SREP



TYPES OF ACTIVITIES UNDER SREP

Free-standing TA for Enabling Environment

- RE resource potential assessment
- Pre-investment studies
- Policy development
- Legal and regulatory reform
- Human and institutional capacity building



TYPES OF ACTIVITIES UNDER SREP

Strategic Program Support

- Development of SREP Investment Plan and Implementation Strategy
- Adoption of policies and regulation for SREP activities
- Development of strategy for private sector involvement in national energy plans
- Integration of SREP plans into national energy plans and strategies



TYPES OF ACTIVITIES UNDER SREP

Project Preparation

- Project due diligence (technical, financial, social, environmental)
- Institutional design (e.g. PPP)
- Project governance structure (e.g. Inter-agency coordination)
- Financial planning
- Stakeholder consultations
- Design of M&E plan incl. indicators

Project Implementation

- Project-specific capacity building
- RE technology deployment
- Operations management of technology installations
- Monitoring and evaluation
- Knowledge management

INVESTMENT PLAN – INVESTMENT CRITERIA

- Contribution to Development Towards Low Carbon Energy Pathways
 - Removal of barriers and development of enabling environment
 - Increased installation capacity of RE
 - Replication of RE investment
- Co-benefits
 - Economic benefits (employment, small businesses, etc.)
 - Social benefits (gender, health, education, etc.)
 - Environmental benefits (emissions reduction, local pollution removal, clean technology scale-up, etc.)
- Economic and Financial Viability
 - Reasonable return on investment

INVESTMENT PLAN – INVESTMENT CRITERIA

- Leverage of Additional Resources
 - Financing
 - Complement funds from other developmental partners
 - Private sector financing
 - Other sources (e.g. Green Funds, commercial sources)
 - Institutional and human capacity and potential for partnerships
 - Private sector
 - Local governmental agencies
 - Civil society
 - Financial intermediaries
 - Existing technical base/experience
 - Past RE programs
 - Presence of RE industry
- Critical Mass for Implementation and Demonstration Potential
 - Sufficient size of investment to ensure measurable impact
 - Demonstration of scale-up potential

ILLUSTRATIVE EXAMPLES OF SREP ACTIVITIES

- **Contribution to Development and Transformative Impact**
 - **Removal of barriers and development of enabling environment**
 - ✓ Introduction of feed-in-tariff or Renewable Energy Portfolio Obligation
 - ✓ Development of a power transmission policy for RETs
 - ✓ Policy to use solar energy in country's health sector
 - **Increased installation capacity of RE**
 - ✓ A successful demonstration of hydropower project leads to a 5-year targeted program to install XXX MW
 - **Replication of RE investments**
 - ✓ A partial risk guarantee mechanism will enable local FIs open up investment portfolios in RE
 - ✓ A dedicated incentive scheme (e.g. capital subsidy) will expand private sector investment

ILLUSTRATIVE EXAMPLES

- **Co-benefits (Economic, social, gender and environmental)**
 - ✓ RE projects generate direct/indirect local employment in remote areas
 - ✓ Off-grid renewable energy systems (e.g. solar home systems) are used in productive activities such as cottage industries and mobile shops
 - ✓ Biogas digesters lead to health and environmental benefits locally (removal of indoor air pollution) and globally (GHG emissions reduction)

- **Economic and Financial Viability**
 - ✓ Fiscal and financial incentives for RE projects help project viability and ensure reasonable return on investment

ILLUSTRATIVE EXAMPLES

- **Leverage of Additional Resources**
 - ✓ SREP supplements an MDB loan/grant to finance specific components and contribute to a larger goal/objective
 - ✓ Complements government or a bilateral program in achieving synergetic impact
 - ✓ Access best practice from other RE programs (e.g. by Govt., MDBs, private sector, NGOs, etc.)
 - ✓ Leverage experience from relevant TA programs of other agencies (e.g. ESMAP, GEF)
 - ✓ Design governance structures based on identification of institutional requirements and capacity needs

- **Critical Mass for Implementation and Demonstration Potential**
 - ✓ Focused investment to ensure substantive and demonstrable impact and low transaction cost (e.g. A set of hydropower projects or a wind energy farm in a province)
 - ✓ Projects of sufficient size to sustain an organized system of qualified operations and maintenance

CIF Final Outcome

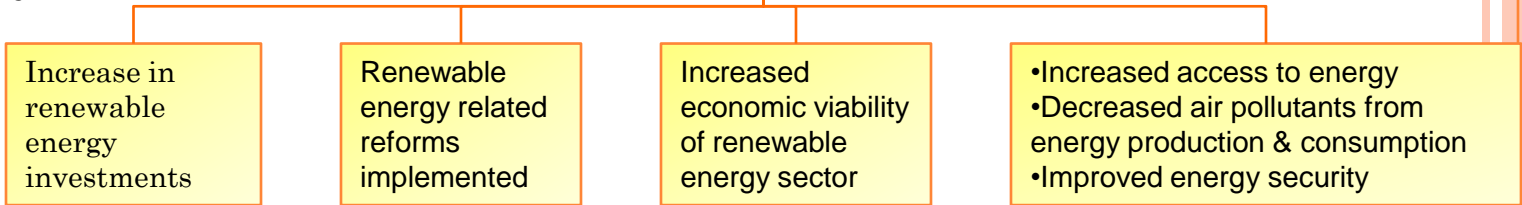
SREP Results Framework

Improved low carbon, climate resilient development

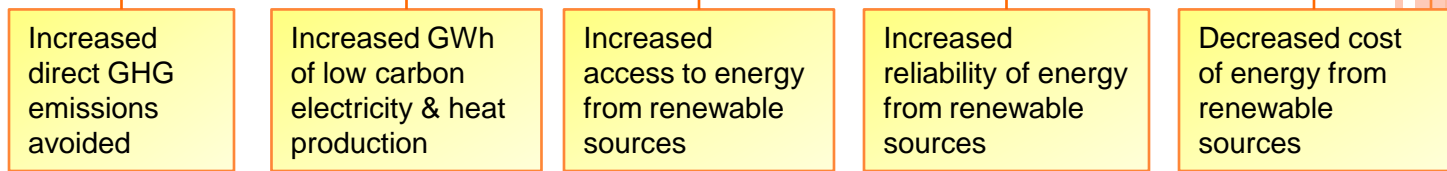
SREP Transformative Impact

Transformed energy supply and use in low income countries to low carbon development pathways

SREP Catalytic Replication Outcomes



MDB SREP Project Outputs & Outcomes



MDB SREP Project Activities



SREP Inputs

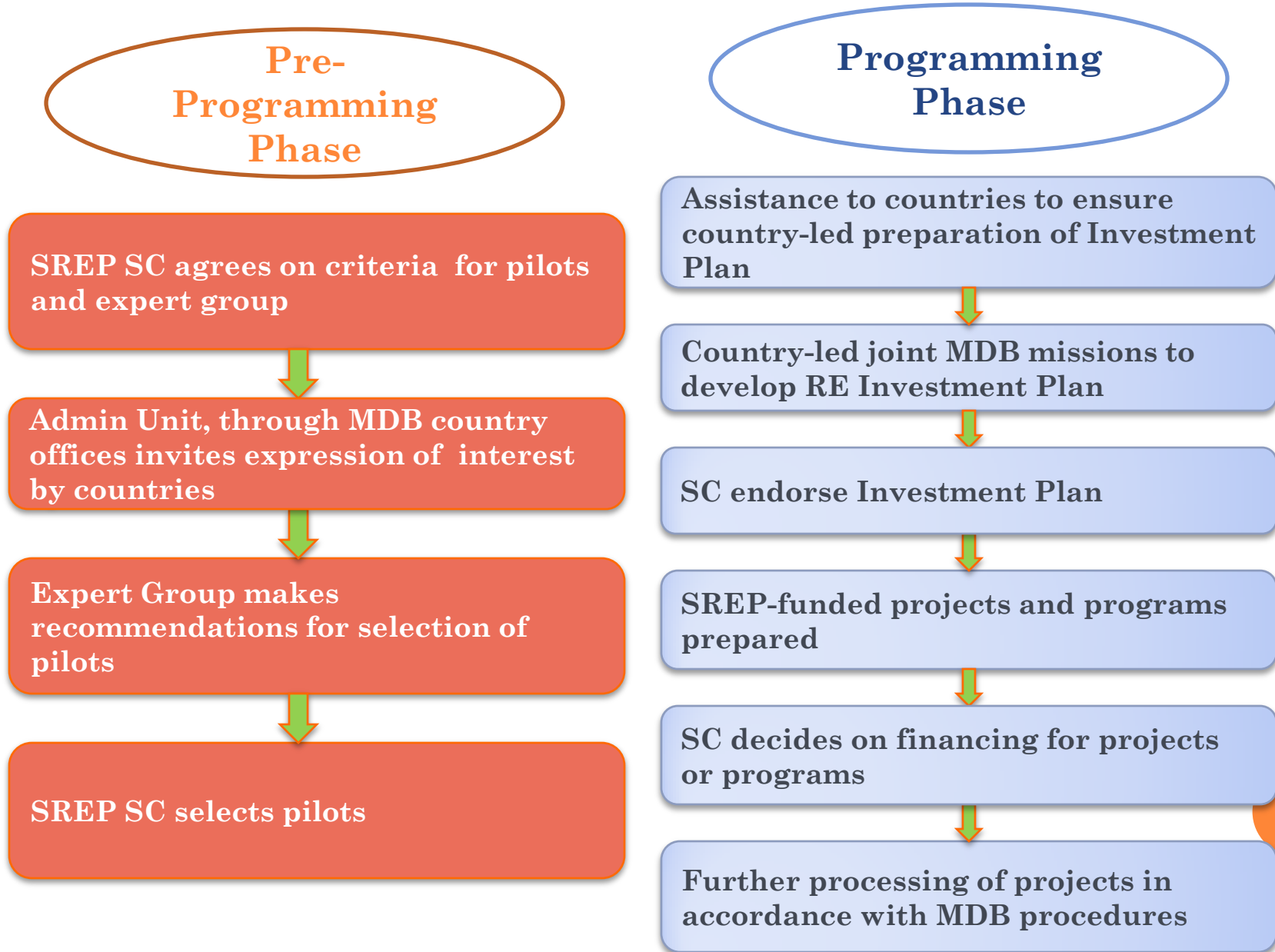
New & additional resources supplementing existing ODA flows



SREP OPERATIONAL GUIDELINES



SREP PROGRAMMING CYCLE



COUNTRY-LED SCOPING AND JOINT MISSIONS

Purpose: Assist the pilot country prepare its SREP Investment Plan

Country request

- Country prepares missions in collaboration with MDBs and other partners; SREP focal point sends request to CIF AU or MDBs

Initial preparation

- Country consolidates array of in-country background documentation
- Country and MDBs prepare Joint Mission TOR: composition, budget, contacts, schedule

TOR approval and division of labor

- MDB Committee approves TOR/budget to be allocated

Joint Mission(s)

- Government leads and MDBs, other development partners, indigenous peoples, civil society, and private sector participate
- Focus on diagnosis, stakeholder consultation, results orientation
- Report of missions prepared before mission end; report placed on web

SREP can provide, upon country request, up-front finance towards Investment Plan preparation prior to the first joint mission

ENDORSEMENT OF INVESTMENT PLAN

- Investment Plan submitted by government to SREP SC
- SC reviews Investment Plan taking into account country energy, development, and climate goals, and SREP investment criteria
- SC endorses Investment Plan as a basis for moving forward to develop proposed projects concepts and approves funding requested for project preparation

PREPARATION OF SREP INVESTMENT PLAN, PROJECTS AND PROGRAMS

On endorsement
by SREP-SC



Project preparation
phase begins

- A **preparation grant** may be made available to enable the pilot country to develop each project or program component, following MDB procedures
- The grant amount will be included in the SREP funding available for the pilot to be approved by SC but will be disbursed up-front for country-driven preparation activities
- Preparation grants for Investment Plans and public sector operations should not exceed \$1 million dollars
- For private sector operations, the preparation grant is requested within the proposed program or project and presented to SC

INVESTMENT PLAN STRUCTURE

I. Proposal Summary

- Objectives
- Expected outcomes
- Program criteria, priorities and budget

II. Country Context

- Energy sector description incl. RE status
- Gap/barrier analysis; needs assessment
- Government plans or strategy for the sector (willingness to move towards renewable energy investments, existing or envisioned policy, regulation, plans, and resource allocation)
- Ongoing/planned investment by other development partners

III. Sector Context

- Analysis of RE options (technology, cost, mitigation potential, barriers)
- Institutional structure and capacity (technical, operational, financial, equipment supply, information)
- Role of private sector and leverage of resources

IV. Contribution to National Energy Roadmap

- Likely development impacts and co-benefits of SREP investment
- How SREP investment will initiate a process leading towards transformational low carbon growth

INVESTMENT PLAN STRUCTURE

V. Program Description of:

- Free-standing technical assistance, if appropriate
- Project preparation activities
- Technology deployment

VI. Financing Plan and Instruments

- Budget envelop for projects
- Costs and sources of funding
- SREP assistance (grant, concessional debt, etc.)
- Recipients of funding

VII. Additional Development Activities

- Leverage complementary co-financing with other development partners such as bilaterals, private sector, and financial institutions
- Parallel activities to be funded by other development partners

VIII. Implementation Potential with Risk Assessment

- Country/regional risks, institutions, technology, environmental, social, financial

IX. Monitoring and Evaluation

- Results framework
- Monitoring protocol and schedule
- Program/project evaluation

ANNEXES TO THE INVESTMENT PLAN

The Investment Plan should include annexes as necessary with details on:

- Proposed projects/programs
- Notional SREP resource allocation
- Estimate of resources that would be leveraged

For each Investment Plan component, a project/program outline annex (maximum two pages) should be provided that includes:

- Problem statement (1-2 paragraphs)
- Proposed contribution to initiating transformation (1-2 paragraphs)
- Implementation readiness (1-2 paragraphs)
- Rationale for SREP financing (1-2 paragraphs)
- Financing plan
- Project/program preparation timetable
- Requests, if any, for project preparation funding

OPERATIONAL PROCEDURES FOR INVESTMENT PLANS

- Program and project activities under Investment Plans will be prepared and implemented in accordance with relevant MDB procedures
 - Appraisal and approvals
 - Formal project agreements
 - Environmental and social safeguards
 - Definition of eligible expenditures
 - Monitoring and evaluation

MONITORING AND EVALUATION

- Investment Plan monitoring must be participatory, transparent, verifiable
- CIF Results Framework to be applied
- SC to report to SCF Trust Fund Committee on results, outcomes and lessons learned
- Independent evaluation of SREP programs to be carried out after 3 years