

CLIMATE INVESTMENT FUNDS

CIF/SREP Consultation/Inf.2
April 29, 2009

Consultation on SCF Program on Scaling-Up Renewable Energy in Low Income
Countries Paris, France
April 29, 2009

CO-CHAIRS' SUMMARY
WORKING GROUP ON DESIGNING PROGRAMS FOR SCALING – RENEWABLE
ENERGY
PARIS, FRANCE
MARCH 25-26, 2009

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April 13, 2009

Co-CHAIRS' SUMMARY
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CO- CHAIRS
GERBEN DE JONG, NETHERLANDS
LUTENGANO MWAKAHESYA, UNITED REPUBLIC OF TANZANIA

Agenda Item 1. Opening of the Meeting

1. The meeting was opened by Jamal Saghir, Director, Energy, Transport and Water Department, at the World Bank. He welcomed the members of the working group and thanked them for contributing to the design of the new SCF program. He noted that all the MDB partners would benefit greatly from the group's knowledge, experience and diverse perspectives (see Annex A for a list of working group members).
2. Sylvie Lemmet, Director, Division of Technology, Industry and Economics, United Nations Environment Program, welcomed participants to the workshop, which UNEP generously hosted.

Agenda Item 2. Election of Co-Chairs

3. The meeting elected Lutengano Mwakahesya, Tanzania, and Gerben de Jong, Netherlands, as the Co-Chairs.

Agenda Item 3. Program for Scaling Up Renewable Energy in Low Income Countries: Preliminary Design Meeting

4. It was recalled that the *Governance Framework of the Strategic Climate Fund* (SCF) provides that “within the framework of the SCF, targeted programs with dedicated funding (SCF Programs) can be established to provide financing to pilot new development approaches or scaled-up activities aimed at a specific climate change challenge or sectoral response. Resources will be mobilized and pledged to specific SCF Programs to be financed within the SCF. Arrangements to guide the SCF Programs, ensure effective partnerships, and provide accountability will be defined for each SCF Program to ensure the effective operations of the programs.”
5. It was further recalled that after approval of the SCF, informal consultations on the design of a new targeted program to promote renewable energy in low income countries were undertaken to gather preliminary views on the scope of such a program. On the basis of these consultations and further bilateral discussions, a preliminary concept note was submitted to the SCF Trust Fund Committee in January 2009 for discussion.
6. Finally, the working group noted that the SCF Trust Fund Committee (TFC) had reviewed the concept note and agreed that a working group should be convened to prepare an initial design document. The SCF Trust Fund Committee also approved a list of countries and organizations to be invited to participate in the working group.
7. The working group reviewed and revised a preliminary draft design document for SREP that had been prepared by the CIF Administrative Unit in consultations with the MDB Committee.
8. The revised Draft Design Document prepared by the Working Group is annexed to this report (see Annex B).

Agenda Item 4. Next Steps

9. The working group agreed that on the basis of its discussions, a strong consensus design document had been prepared. They proposed that, subject to a period of broader consultations the design document should be submitted to the SCF Trust Fund Committee at its next meeting in May for approval.
10. The working group recommended the following steps towards meeting that goal:
 - (a) the CIF Administrative Unit, in collaboration with the Working Group Co-Chairs, should finalize the draft design document and circulate it to the working group members for final review;
 - (b) once the review is complete, the draft design document should be posted on the CIF website for further comments;
 - (c) consultations on the draft design document should be convened on April 29 in Paris so as to provide an opportunity for broader outreach and solicitation of views; and
 - (d) taking into account the consultations to be convened on April 29. the draft design document should be revised based on consensus reached among participants in the consultations and submitted to the SCF Trust Fund Committee for approval.

Agenda Item 5. Closing of the meeting

11. The working group meeting was closed on March 26.

Annex A: List of Working Group Members

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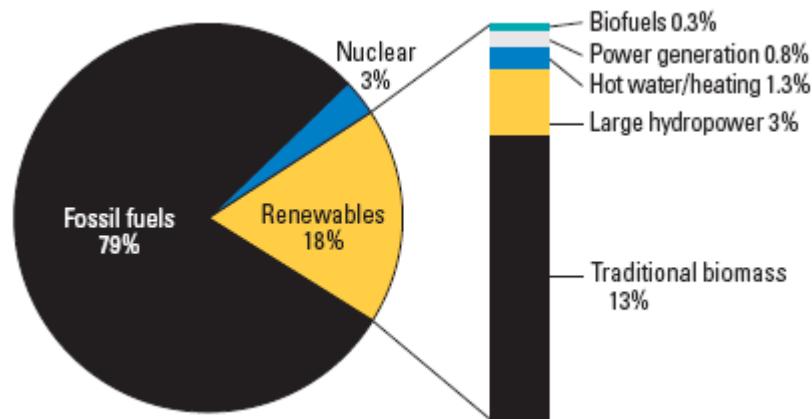
Annex B

Draft Design Document for SCF Program for Scaling-Up Renewable Energy in Low Income Countries (SREP)

BACKGROUND

1. Low income countries face a dual challenge of increasing the availability of electricity and other commercial fuels needed for economic development and increasing access to the 1.5 billion people who have no access to electricity and are dependent almost wholly on traditional biomass fuels for energy services. The majority of the low income countries and populations are in Sub-Saharan Africa and Asia, and electricity access is about 25 percent in Africa and 52 percent in Asia. In a vast majority of these countries fossil energy use is highest in the residential and commercial sectors. Low income countries in Latin America have access rates typically of 60 percent.
2. Presently most low income countries have low emissions of greenhouse gases due to energy use. Economic development will require these low income countries to increase commercial energy use substantially. The International Energy Agency (IEA) expects that Africa will require an additional 250 million tons of oil equivalent (Mtoe) between 2006 and 2030 and Asia (other than China and India) will require an additional 400 Mtoe to achieve their economic development goals.¹
3. Renewable energy comprises approximately 18 percent of total global final energy consumption (Figure 2), of which, 72 percent is traditional, unsustainable use of biomass. The next largest renewable energy segment is large hydropower constituting 17 percent of total share of renewable energy. The balance 11 percent comprises other forms of renewable energy.

Figure 1 Renewable Energy Share of Global Final Energy Consumption, 2006
(<http://www.ren21.net>)



4. Low income countries are well endowed with renewable energy resources, though they use a tiny fraction of their potential. In Africa, less than 10 percent of their hydro potential is

¹ IEA, World Energy Outlook, 2008

used. In Asia (excluding China), less than 25 percent is used. Africa is well endowed with geothermal resources, but excluding Kenya, little is used. Similarly, there is strong potential to develop wind, biomass and solar resources in most low income countries. While the opportunities are large in low income countries, if business-as-usual practices prevail, much of this large potential will remain unused, as it is today. Tapping into renewable opportunities will increase diversity of supply and improve energy security.

5. The need to ramp up modern energy use in low income countries coupled with the availability of exceptional renewable energy resources provide a fertile opportunity to help countries develop a renewable energy base that will allow them to leap-frog into a new pattern of energy generation and use. Increased financing is vital to catalyze such a transformative use of renewable energy. Such resources are needed to overcome the challenges to achieving this potential, including:

- a) weak enabling environments: Few low income countries have in place an enabling environment necessary to promote renewable energy. It is necessary, therefore, to create an enabling environment by establishing the necessary policy, legal, regulatory and economic frameworks, barriers to investment, improving access to knowledge, and strengthening institutional capacities is essential to reduce risks and transactions costs, and thereby encourage renewable energy investment.
- b) lack of access to capital: there is a funding gap for renewable energy as commercial lenders perceive such investments as too risky. The capital intensity of renewable energy investments further exacerbates the problem. When there are capital constraints, the tendency is to favor conventional energy projects that typically have low capital intensities;
- c) need to engage public and private sector. The private sector can be effective in scaling up renewable energy investments if an enabling environment exists. This underscores the important role of the public sector in setting the policy and regulatory framework for private sector interventions and contributing to investments in the early stages of a transformative program.
- d) lack of affordability: even with increased access to investment resources, many potential customers may have limited financial resources to make energy purchases at a scale needed to make renewable energy businesses financially viable. Long-term commercial viability is a prerequisite for sustainable and affordable energy services.

I. OBJECTIVES AND PURPOSE OF SREP

6. The aim of the SCF Program for Scaling-up Renewable Energy in Low Income Countries (SREP) is to pilot and demonstrate the economic, social and environmental viability of low carbon development pathways in the energy sector by creating new economic opportunities and increasing energy access through the use of renewable energy.

7. As the foundation of economic growth, the private sector has a significant role to play in promoting renewable energy. In pursuing a strategy that will combine public sector and private sector actions, the SREP should seek to overcome economic and non-economic barriers in order to scale-up private sector investments contributing to the objectives of the SREP.

8. SREP should assist low income countries to initiate a process leading towards transformational change to low carbon energy pathways by exploiting their renewable energy potential in place of fossil-based energy supply and inefficient use of biomass.

8. Transformational change could occur through improved market and financial conditions, increased investor confidence, and greater public and private sector investments in renewable energy leading to large scale replication. Transformation could also be stimulated through a better understanding of impediments, removal of barriers and demonstration that renewable energy provides a feasible pathway for economic growth and development.

9. SREP should provide experience and lessons in scaling up renewable energy through learning-by-doing and should promote sharing of lessons at the national, regional and international levels.

10. SREP should also lead to co-benefits. Using renewable energy in place of conventional fuels could simultaneously address local air pollution reductions while reducing greenhouse gas emissions, contributing to climate resilience, and enhancing energy security.

11. SREP financing should be blended with co-financing from multilateral development bank (MDB) lending programs and other available funds to invest in renewable energy technologies for electricity use and thermal energy generation in low income countries.

II. SREP DESIGN PRINCIPLES

12. Building on the aim and the objectives above, SREP should:

- (a) be country-led and build on, and draw benefit from, national policies so that renewable energy is fully integrated into national energy plans. SREP should assist countries in developing or strengthening policies for renewable energy;
- (b) take a programmatic and outcome-focused approach for investing in renewable energy as an alternative to conventional sources, such as fossil fuels and inefficient use of biomass. A pilot program should consist of both renewable energy investments and technical assistance, together with support for policy changes to greatly increase the use of renewable energy;
- (c) give priority to renewable energy investments that create ‘value added’ in local economies. SREP should target renewable energy technologies that allow for the generation and productive use of energy, as well as community services such as health education and communication;
- (d) commit sufficient funding and leverage significant additional financing from MDBs, bilateral agencies/banks and from other public and private sources to achieve large scale renewable energy impacts;
- (e) work in a small number of low income countries selected on the basis of objective criteria, to maximize its impact and the demonstrative effect;
- (f) target the entire value chain by utilizing the transformational potential of the private sector and civil society groups (including financial intermediaries) to

achieve economic development and support long-term social and environmental sustainability; and

- (g) seek wider economic, social and environmental co-benefits, such as reduced local pollution and increased energy security.

III. COUNTRY ELIGIBILITY

13. A country eligible for participating in SREP pilots should be:

- (a) a low income country eligible for MDB concessional financing (i.e., IDA² or a regional development bank's equivalent); and
- (b) engaged in an active MDB country program. For this purpose, an "active" program means where an MDB has a lending program and/or on-going policy dialogue with the country.

14. It is expected that a country receiving financing from SREP will not receive financing from the CTF.

IV. SELECTION OF PILOT PROGRAMS

15. SREP should support country pilot programs, and if appropriate, may consider regional pilot programs³. It is proposed that a [minimum] funding level of US\$250 million for the SREP be achieved before the program is initiated.

16. The SREP Sub-Committee should determine the number of pilot programs and the level of funding for each pilot, taking into account, among other things, the resources available for the SREP and the objective of providing scaled-up resources in the pilot countries. Final selection of pilot countries will be made by the SREP Sub-Committee (see paragraphs 29-31 below.)

17. Selection of the pilot countries should be made by the SREP Sub-Committee on the basis of recommendations provided by an Expert Group to be established by the Sub-Committee.

18. The Expert Group should provide advice on selection of the pilot programs based on objective selection criteria, to be approved by the SREP Sub-Committee, such as:

- (a) willingness to undertake a program for renewable energy development that could eventually move the country towards a low carbon development path in the energy sector;⁴ with special consideration for countries that already have established policies encouraging renewable energy; and
- (b) potential capacity for implementation, including a business friendly environment;

² SREP should be limited to IDA only countries and similar RDB equivalents.

³ A regional or sub-regional program will be considered as one pilot under the SREP.

⁴ Conditions needed for such transformation may include a willingness to adopt, or the existence of supportive regulatory structures and institutions (including agencies to promote/utilize renewable energy); an enabling business environment; sector-wide energy development strategies that are open to integrating renewable energy into energy access and supply enhancement programs; and good governance.

- (c) distribution of pilots across regions and balance among diverse contexts for scaling up renewable energy, such as urbanization, industrialization, and dispersed rural populations.

19. Taking into account the recommendations of the Expert Group and in accordance with the country eligibility set out above, the SREP Sub-Committee should approve a provisional list of pilot programs to be considered for financing under the SREP. The countries proposed on the provisional list should be invited to express their willingness to participate in the SREP. The SREP Sub-Committee should then approve the list of pilot programs, based on the expressions of willingness to participate received from the invited countries.

V. SCOPE OF PILOT PROGRAMS

20. Renewable energy programs for generation and use of energy using proven “new” renewable energy technologies. For purposes of SREP, new renewable energy technologies would include solar, wind, bioenergy, and geothermal, as well as hydropower with capacities up to 10 MW per facility

21. SREP should support complementary technical assistance as this is essential for transformative and enduring change and country engagement and ownership. This could include support for planning and pre-investment studies, policy development, legal and regulatory reform, business development and capacity building (including for knowledge management and monitoring and evaluation) as an integral and complementary part of renewable energy investment operations. SREP support should be available for funding the preparation of SREP programs and technical assistance during project implementation.

22. The following operational criteria should be used to prioritize and select activities to be funded by SREP under the pilot programs:

- (a) Transformative impact. A country’s SREP funding plan (see paragraphs 25 and 26 below) should demonstrate how it will have a transformative effect in achieving national-scale outcomes. A key criterion should be how the plan would remove barriers to renewable energy in the enabling environment and lead to replication of renewable energy investments.
- (b) Economic, social and environmental development impact. Project and program proposals for SREP financing should demonstrate the generation of economic, social and environmental benefits.
- (c) Economic and financial viability. Project and program proposals should demonstrate the economic and financial viability of the investments.
- (d) Leveraging of additional resources. Preference should be given to financing public and private sector activities that maximize the leverage of SREP funds.
- (e) Implementation capacity. Programs may be executed through government and sub-sovereign agencies, financial intermediaries, private sector or civil society organizations. Preference should be given to proposals that build local and national implementation capacity and institutions.

VI. FINANCING MODALITIES

23. SREP should offer a mix of financing which should be blended with financing available from the MDBs and bilateral agencies/banks, and which would leverage other public and private sector resources.

24. SREP should fund the additional cost necessary to make the project financially viable and to mitigate risks together with the cost of related technical assistance. In determining such additional costs, potential revenues from carbon markets should be taken into account. It should use of a range of financial instruments. See Box 1 below for examples of potential financial instruments.

Box 1: Examples of Financial Instruments

SREP should utilize a range of financial instruments that are already available in MDBs. They may include:

- a. Performance-based aid. Good principles of subsidies should be adhered to (e.g., time-bound or if justified over a longer period (such as in the case of lifeline tariffs) commitment by government to contribute, and transparently sourced and targeted).
- b. Investment financing using equity and debt financing, capital cost buy-down, production incentives or other financial instruments to make renewable energy investments and related transmission and distribution investments financially viable.
- c. Credit enhancement or risk mitigation that leverages trade finance and short term working capital finance to renewable energy suppliers, provides partial risk coverage to investors that lack adequate credit history, limited collateral for securitizing the renewable energy loans or other risks.
- d. Financial intermediation grants and loans that can be on-lent as loans through domestic financial institutions, including micro-finance institutions for renewable energy investments.
- e. Grants for technical assistance, program and project preparation and implementation, and capacity building related to knowledge management.

VII. PROGRAMMING PROCESSES

25. After the country and the Sub-Committee have confirmed a country's participation in a pilot program, the relevant MDBs should conduct a joint programming mission to consult the government on the design of the pilot program. During these consultations, the government and the MDBs should engage appropriate UN agencies and other development partners, private sector, local governments, national civil society and other stakeholders on how the pilot program may assist the government to enhance renewable energy investments. Appropriate UN agencies and other development agencies should be notified in advance of the mission to facilitate their participation. A primary goal of the joint mission(s) should be for the government and the MDBs to prepare jointly a succinct SREP funding plan.

26. The plan should include the following:

- (a) country context of the program (fit with national energy plans) and strategic goals,
- (b) concept notes on the priority projects to be proposed for SREP funding, and information on status of project preparation,

- (c) proposed sequencing of investments and associated technical assistance, including for enabling activities,
- (d) financing required for each project, resources requested from the SREP, and other sources of technical assistance and pre-investment support.

27. The plan should be submitted to the SREP Sub-Committee for review and endorsement.

28. The further processing of activities identified in the programming plan should follow the MDBs policies and procedures for appraisal, MDB Board approval and supervision. A proposed program or project, developed pursuant to the programming plan, should be circulated by the Administrative Unit, prior to its appraisal by the relevant MDB, to the SREP Sub-Committee for approval of SREP financing.

VIII. GOVERNANCE

29. In accordance with the SCF Governance Framework, the SCF Trust Fund Committee should establish a SREP Sub-Committee consisting of:

- (a) up to six representatives from contributor countries to the SREP, identified through a consultation among such countries (or potential contributors in respect of the first year of the SREP operations), but at least one of which should be a Member of the SCF Trust Fund Committee;
- (b) a matching number of representatives from eligible recipient countries to the SREP, elected on a regional basis and identified through consultations among such countries, at least one of which should be a Member of the SCF Trust Fund Committee. For the purpose of this paragraph, an eligible recipient country means any country which meets the eligibility criteria for funding under paragraph 13 above; provided, however, to the extent that any country is selected as a pilot country for the SREP at the time of the selection of the representatives, any such country on the list of pilot countries shall be given priority to represent eligible recipient countries under this paragraph. If there is no Member of the SCF Trust Fund Committee which is an eligible recipient country under paragraph 13 above, then at least one representative on the SREP Sub-Committee chosen pursuant to this paragraph should be selected from among the SCF Trust Fund Committee Members identified in accordance with paragraph 14(b) of the Governance Framework for the Strategic Climate Fund
- (c) any other representatives designated by the SCF Trust Fund Committee.

30. In addition to other observers identified in the *Rules of Procedure for the SCF Trust Fund Committee*, which will apply *mutatis mutandis* to the SREP Sub-Committee meetings, a representative of the Energy for the Poor Initiative (EFPI) should be invited as an observer to the SREP Subcommittee in order to ensure optimization of resources and coordination with the EFPI.

31. The functions of the SREP Sub-Committee should include:

- (a) appointing the expert group and approving criteria and guidance to be followed by the group;

- (b) selecting country and regional pilot programs;
- (c) approving financing modalities for the SREP;
- (d) endorsing further development of activities in country plans for trust fund financing;
- (e) approving SREP financing for programs and projects;
- (f) approving a results measurement framework for SREP and periodically reviewing the effectiveness and impact of SREP programs and activities and ensuring that lessons learned are applied to future SREP investments and transmitted through the SCF Trust Fund Committee to the UNFCCC, the Partnership Forum and interested stakeholders;
- (g) approving periodic reports to the SCF Trust Fund Committee on the operations of SREP;
- (h) ensuring complementarity between activities foreseen for SREP and activities of other development partners active in the field of climate change, including the GEF, UNDP and UNEP, and ensuring effective cooperation between the SCF Program and GEF, UNDP and UNEP country activities to maximize synergies and avoid overlap; and
- (i) exercising such other functions as they may deem appropriate to fulfill the purposes of SREP.

RESULTS MEASUREMENT FRAMEWORK

32. The results measurement framework for SREP should be a central part of the program design and implementation by defining how transformational impacts will be measured before, during and after the life of the program. The aim should be to help drive successful outcomes, while ensuring that the lessons learned are disseminated to processes and organizations outside the Climate Investment Funds.

33. The SREP Sub-Committee should approve a log frame aimed at measuring the impact of SREP at three levels (global, program and project). A preliminary log frame is annexed to this document. The CIF Administrative Unit, in consultation with the MDB Committee, should further develop this log frame for review and approval by the Sub-Committee.

34. The SREP Sub-Committee should ensure, through the SCF Trust Fund Committee, that lessons learned and results are regularly shared with the CIF Partnership Forum, so as to promote a dialogue with a broad-based group of stakeholders on the strategic directions, results and impacts of the program.

IX. SUNSET CLAUSE

35. The sunset clause of the SCF Trust Fund will apply to the SREP.

ANNEX: PRELIMINARY LOG FRAME FOR MEASURING THE IMPACT OF SREP⁵

a)	Global goal:	Indicators:	Baseline/source:	Target:
	<ul style="list-style-type: none"> Stabilisation of global CO2 emissions at safe levels 	Global CO2 emissions	2005 (UNFCCC)	To be determined through UNFCCC
	<ul style="list-style-type: none"> Improve the economic, social and environmental development of low income countries 	MDGs	2000 (UN)	Achievement by 2015
b)	SREP purpose:	Indicators:	Baseline/source:	Target:
	<ul style="list-style-type: none"> Scaling-up the deployment of 'new renewables' in target countries so that they become a key part of a country's energy supply 	'New renewable energy' as % of new energy supply (in formal sector)	2008 (Energy Ministries)	>5% by 2012
	<ul style="list-style-type: none"> To increase economic, social and environmental development through improved energy provision 	Energy as a catalyst to economic development [need to find indicator]	2008	TBC
	<ul style="list-style-type: none"> Increasing access to modern forms of energy 	% of population with access to modern forms of energy	2008	>10% increase by 2012
	<ul style="list-style-type: none"> Achieve high leverage of SREP funding 	Leverage ratio of SREP funding	n/a (MDBs)	>1:3 over life of program (2009-2012)
	<ul style="list-style-type: none"> Generation and acceptance of successes and lessons learned 	Replication of SREP successes	n/a (MDBs)	Evidence of replication of three or more elements from SREP by 2012
c)	Country level outcomes:	[indicators at country level]		

⁵ This log frame will be further elaborated by the MDB Committee in advance of the consultations to be convened on April 29.

		for guidance only – should be determined by the government, jointly with the MDB]		
<ul style="list-style-type: none"> • Transformational shift towards the mainstreaming of ‘new renewable energy’ in national energy provision 	<ul style="list-style-type: none"> i) ‘New renewable energy’ as % of new energy supply (in formal sector) ii) Investment in new renewable energy in the equivalent time period after SREP ends 	<ul style="list-style-type: none"> i) 2008 (Energy Ministries) ii) Total investment over lifetime of SREP (2009-2012) 	<ul style="list-style-type: none"> i) >5% by 2012 ii) Investment = >100% of that achieved by SREP in following 3 years 	
<ul style="list-style-type: none"> • Economic, social and environmental impacts 	<ul style="list-style-type: none"> i) Economic development as a result of energy provision ii) % of population with access to modern forms of energy 			
<ul style="list-style-type: none"> • Economic and financial viability 	% of ongoing renewables deployment that is reliant on donor support			
<ul style="list-style-type: none"> • Leveraging of additional resources 	SREP funding as a % of total investment			
<ul style="list-style-type: none"> • Enabling frameworks and implementation capacities are improved 	<ul style="list-style-type: none"> i) number of new enterprises created ii) number of 			

		financial intermediari es offering renewable energy products iii) etc...		
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