

CLIMATE INVESTMENT FUNDS

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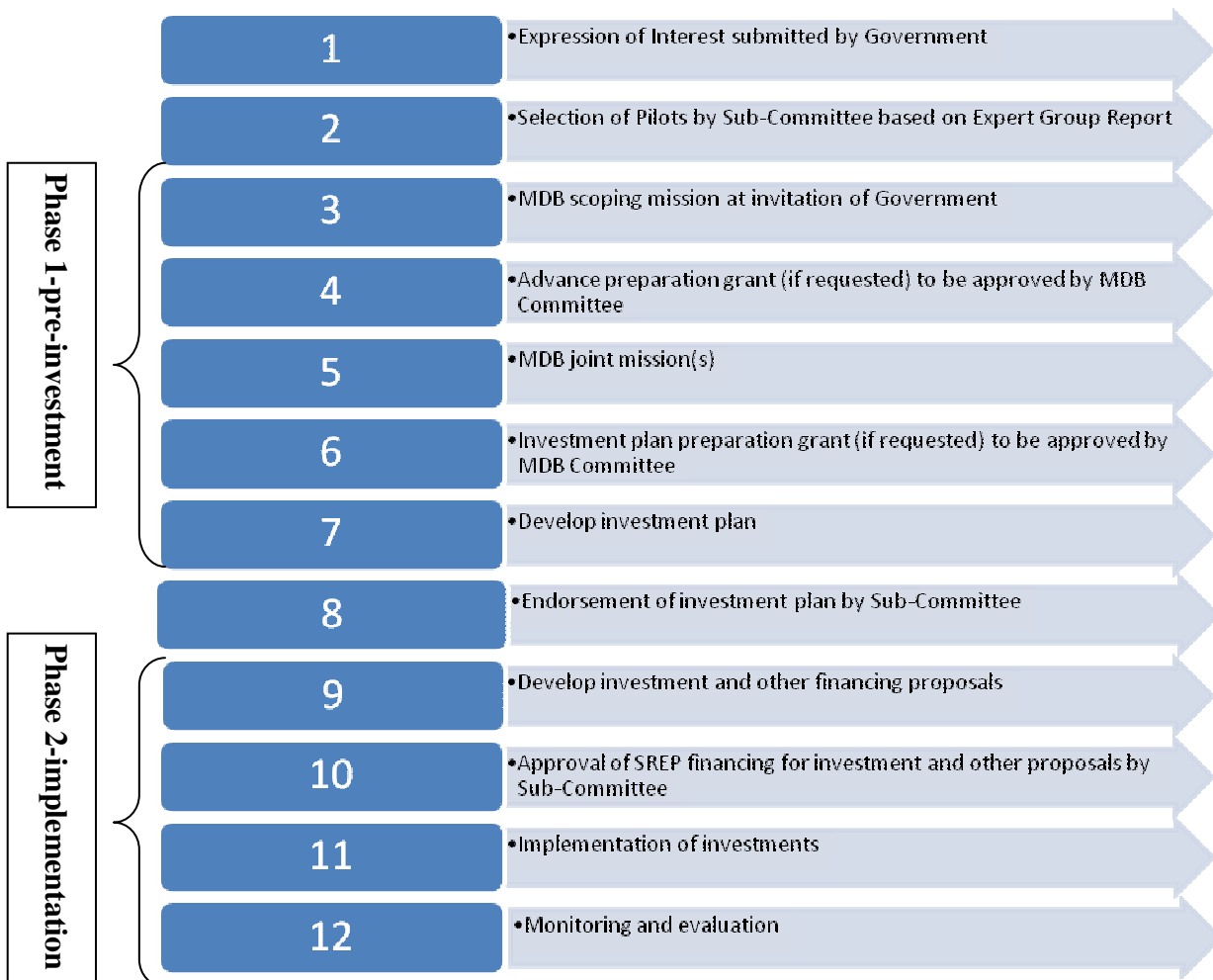
SREP PROGRAMMING MODALITIES AND OPERATIONAL GUIDELINES

Purpose of Document

1. The Climate Investment Funds (CIF) were established to provide grant and concessional financing to developing countries with the objective of achieving transformational outcomes and serving to demonstrate what can be achieved jointly by the Multilateral Development Banks (MDBs) through programmatic approaches to scale-up resources to a set of pilot countries for climate resilient and low emission development. Under the Strategic Climate Fund, one of two trust funds established under the CIF, three targeted programs have been designed. The Program on Scaling-up Renewable Energy in Low Income Countries (SREP) is one of the SCF's targeted programs. Its aim 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.

2. In accordance with the SREP design and the present document, the steps outlined in the flowchart below are to be followed in programming activities to be financed by the SREP. This document elaborates further upon the programming modalities and operational guidelines.

Flowchart for SREP Programming¹



¹ A more detailed business process flowchart for SREP operations is presented in Annex C.

Design of the SREP

3. The objectives and design principles for SREP were agreed in the SREP Design Document which was approved by the SCF Trust Fund Committee in May 2009.

Objectives and Purpose of SREP

4. The aim of the SREP is to pilot and demonstrate, as a response to the challenges of climate change, 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.

5. 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.

6. 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.

7. Transformational change could occur through improved market and financial conditions and increased investor confidence. It leads to greater public and private sector investments in renewable energy necessary for large scale replication. This requires a better understanding of existing impediments and a focus on concrete actions to remove barriers. SREP should demonstrate that renewable energy provides a feasible pathway for economic growth and development.

8. SREP should provide experience and lessons in scaling up renewable energy, should promote sharing of lessons at the national, regional and international levels and should increase public awareness of the opportunities for renewable energy.

9. SREP should also lead to economic, social and environmental co-benefits. Using renewable energy could simultaneously address local air pollution reductions while reducing greenhouse gas emissions, contributing to climate resilience, and enhancing energy security.

SREP Design Principles

10. 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. An SREP program should consist of both renewable energy investments (including infrastructure to supply and deliver renewable

energy), and capacity building and advisory services to support delivery and results, 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 proven 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) encourage private sector investments to significantly increase renewable energy capacity in a country’s energy supply;
- (g) 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;
- (h) seek wider economic, social and environmental co-benefits, such as reduced local pollution, increased energy security, enterprise creation, and increased social capital, particularly greater involvement and empowerment of women and other vulnerable groups;
- (i) be designed and implemented with the full and effective participation and involvement of, and with respect for the rights of, indigenous peoples and local communities, building on existing mechanisms for collaboration and consultation; and
- (j) proactively seek to build on synergies with other programs in the field of renewable energy, including those of the MDBs, GEF and other development partners.

Scope of Activities under SREP

11. For each SREP pilot program, an investment plan will be developed under the leadership of the country. SREP investment plans should be designed to support a country-level programmatic approach to scaling up renewable energy. An emphasis should be put on the long-term transformative outcomes and successful market transformation rather than individual investments or activities.

12. Consistent with the objectives and purpose of the SREP, investment plans should seek to address, as appropriate in the country circumstances and consistent with national priorities, the following:

- a) **Transformative impact.** The investment plan should demonstrate how it will initiate transformative change in achieving national-scale outcomes and the delivery of SREP aims and objectives. Key criteria should be how the plan would remove barriers to renewable energy in the enabling environment, lead to replication of renewable energy investments, and increase the installed renewable energy capacity in a country's energy supply.
- b) **Enabling Environment.** In order to increase renewable energy production it is necessary to create an enabling environment by establishing the necessary policy, legal and regulatory frameworks. Therefore, the investment plan should present the country's long term commitment to promoting renewable energy as part of its energy sector strategies and energy access goals. The IEA (2008) has found that high levels of policy effectiveness are linked to three factors co-existing at the same time: i) country's level of policy ambition (e.g., level of targets), ii) the presence of a well designed incentive scheme, and iii) the capacity of the system for overcoming non-economic barriers which may prevent the proper functioning of the market (e.g., administrative hurdles, obstacles to grid access). The investment plans should also demonstrate how SREP support would assist pilot countries in strengthening their policies and institutions with a view towards enhancing the enabling environment for renewable energy investments. In this context, an assessment of sector governance, institutions and energy policy instruments to promote renewable energy and the need for improved capacity for planning and implementation should be included in the investment plans.
- c) **Implementation capacity.** Programs may be executed through government and sub-sovereign agencies, financial intermediaries, private sector or civil society organizations. Programs should build local and national implementation capacity and institutions. Programs should address the viability of the proposed implementation model, including models to engage the private sector.
- d) **Catalyze increased investments in renewable energy in total sector investment.** The investment plan should describe how SREP investments will attract other public and private finance and lead to replication through demonstration effects, institutional learning, and increased investor confidence. Programs should ensure that investments are of a sufficient size to sustain an organized system of qualified operations and maintenance. The investment plan should ensure leverage of additional resources from non-SREP sources, including lending operations of MDBs, complementary funds from other developmental partners such as bilateral, public sector resource allocations, and private sector commercial investments.
- e) **Improve the long-term economic viability of the renewable energy sector.** SREP funding should help provide reasonable return on investment so that renewable energy technology deployment is sufficiently attractive to bring in private sector participation, where feasible. However, in order to ensure long-term sustainability of SREP interventions, the SREP investment plan should present the country's strategy for private sector development in the renewable energy sector, particularly in terms of growth in enterprises in renewable energy generation, installation, and operation and maintenance services. Promoting productive uses of renewable energy should also be part of the scale-up effort, since it strengthens the supply infrastructure and improves the economics

of the investments. Investments and other activities funded by SREP should make use of local manufacturing and skills to the greatest extent possible in order to support local market development.

- f) **Increase Energy Access.** Proposals for SREP funding should result in increased energy access through the use of renewable energy by addressing in a programmatic manner the main barriers to expanding access:
- (i) ***Weak implementing capacity.*** Adequate design and effective implementation of an electrification program requires technical and managerial skills that are not always available. Countries committed to extending electricity access need to go through an initial period of strategy development and capacity building. This process may entail new or amended legislation, institutional strengthening, planning, and establishing technical standards and regulatory procedures tailored to the nature of rural electrification, which may be supported by SREP.
 - (ii) ***Lack of appropriate incentives.*** The high costs of electricity supply and the limited capacity in low income countries to pay for the service make it difficult to attract investment. To do so requires concessional funding and other incentive mechanisms that contribute to ensuring in the long term sustainable cost recovery while minimizing price distortions.
 - (iii) ***Electricity generation shortage.*** An obstacle to electrification in many countries with low access rates is insufficient generation capacity of the main electricity system. It is unrealistic to expect low income countries to make more than modest gains in increasing electricity access by means of grid extension until the capacity constraint is eased. Off-grid, mini-grid and distributed energy systems have the advantage of not being affected by this capacity constraint, and SREP funding could provide an important source of support for such investments.
 - (iv) ***High costs of supplying remote areas.*** Most remote areas are characterized by a low population density and a very high percentage of poor households. Demand for electricity is usually limited to residential and agricultural consumers, and many households consume less than 30 kilowatt-hours (kWh) per month. The combination of these factors results in high costs of supply for each unit of electricity consumed.
 - (v) ***Enhance energy security.*** Many low income countries are particularly vulnerable to high and volatile oil prices, with severe impacts on their ability to gain access to reliable and affordable energy supplies. Diversification of energy supplies with renewable energy could help countries reduce their vulnerability to the uncertainties of global energy markets. SREP investment plans should describe how SREP support is building capacity and infrastructure necessary for pilot countries to diversify their energy supplies, particularly in the context of regional energy integration strategies.

Types of Activities under SREP

13. In consideration of the diversity across low income countries, such as the policy environment, current status of energy sector, extent of renewable energy development,

institutional capacity, and access to programmatic and financial resources, the scope of the investment plan for each pilot country/region may include several types of activities, based on the specific requirements of the country/region.

14. An investment plan can include investments and other activities under two broad categories:

- a) *Capacity Building and Advisory Services to Support Delivery and Results* – development of energy policies and legislation, assessment of technical resource potential for various renewable energy sources, strengthening governance and institutional capacity, improved planning and regulation, incentive schemes to improve financial viability of renewable energy technologies; and
- b) *Investments leading to deployment of different renewable energy technologies and their operational management;*

Capacity Building and Advisory Services to Support Delivery and Results

15. The scale up of renewable energy options requires the creation of favorable local conditions. It also requires the removal of a wide range of barriers to renewable energy technology deployment compared to fossil fuel alternatives, particularly in low income countries. But the lack of human and institutional capacity in low income countries is an additional and significant barrier to the deployment of sustainable and low-carbon energy systems.

16. Providing pilot countries with specialized capacity building and advisory services to support delivery and results can enable them to accelerate the uptake of cleaner energy technologies by building national and local institutional capacities, creating effective enabling environments, and providing them with better access to information on technology. In particular, it is important for sustainability of results to build upon local renewable energy expertise and capabilities and to facilitate collaboration between relevant local institutions and international experts so as to develop local skills and capacity. Removal of barriers – spanning policy and regulatory processes, institutional, financial, and technical and market issues (Annex A) – will require a suite of country-tailored support services for SREP recipient countries in the form of advisory services, knowledge management and outreach. These services need to be designed to mutually reinforce investment financing and can be considered as pre-cursors and enablers to support the successful deployment of renewable energy technologies and systems. Implementing them requires a coherent and focused program of activities.

17. Capacity building and advisory services should be demand driven, country owned and flexible and incorporated into the investment plan of each pilot. Such services should be tailored to SREP recipient country needs and local conditions and generally integrated into the design of investments. On an exceptional basis, capacity building and advisory services activities may also be delivered separately and funded independently from the investment activity.

18. Governments will take a lead in identifying their needs and will be supported by MDBs and other development partners active in the country. Recipient governments should decide what, how and with whom to work in these areas. Recognizing that SREP funding should flow through the MDBs, procedures will be agreed by the MDB Committee as to how to facilitate the provision of capacity building and advisory services through UN Country Teams and other

development partners when requested by the country. Recipient countries will also be responsible for identifying delivery partners in their investment plan.

19. Further elaboration on the provision of capacity building and advisory services to support delivery and results is provided in Annex B.

Investments

20. SREP should provide financing for renewable energy generation and use of energy using proven “new”² renewable energy technologies. Technologies that will be covered under SREP funding include solar thermal and photovoltaic systems, wind energy, bio-energy (biogas, gasification, cogeneration, bio-fuels), geothermal energy and hydropower with capacities normally not to exceed 10MW per facility.

21. Hybrid systems may be included in an SREP investment plan. However, SREP resources may only be used to finance hybrid systems that use renewable energy technologies. For hybrid systems with a non-renewable component (the percentage of which should be determined on the basis of case-specific analysis and bearing in mind the objectives of the SREP) funding will need to be identified from other sources.

22. Renewable energy technology deployment can be used for various energy applications – electricity generation, thermal applications and mechanical operations. The mode of technology installation can be in various forms – connected to the national/regional grid, off-grid, stand-alone systems or distributed generation networks. In addition to renewable energy technology deployment, activities such as interconnection improvements may be considered if directly relevant to scaling up of renewable energy programs.

23. Briefs for investments should address the following criteria, as appropriate. It is recognized that a particular investment may not address all the criteria.

- a) **Increased installed capacity from renewable energy sources:** A high priority for most low income countries is expanding their generation capacity in order to ramp up modern energy use and energy access. Therefore, SREP-funded investments should result in increased MW from renewable energy, as well as increased energy (GWh) per capita in the country.
- b) **Increased access to energy through renewable energy sources:** SREP may support grid extensions and decentralized energy systems with a view to expanding the percentage of the population with access to non-fossil-fueled electricity. Investment proposals should demonstrate how the investments are part of the Government’s long-term commitment to increasing energy access.
- c) **Low Emission Development:** SREP may support the use of renewable energy technologies for electricity generation and services to replace fossil fuel technologies that would be deployed in a business-as-usual scenario aimed at substantially increasing commercial energy use in low income countries. In particular, benefits from SREP

² For this purpose, “new” renewable energy is as defined at the International Renewable Energies Conference held in Bonn, Germany, in June 2004.

investments will often arise from “leap-frogging” technologies, in which low income countries will be assisted to mainstream renewable energy technologies into the overall energy system.

- d) **Affordability and competitiveness of renewable sources:** Affordability is essential for increasing access and for ensuring the long term renewable energy market development. SREP funding should address clearly-defined cost barriers to adoption of renewable energy technologies, such as connection costs for rural consumers, higher capital costs of new technologies, transmission costs related to grid-connected renewables, and risk-adjusted rates of return sought by investors.
- e) **Productive use of energy:** SREP programs should promote the generation and productive use of energy.
- f) **Economic, social and environmental development impact:** Investment proposals for SREP financing should demonstrate the generation of economic, social and environmental benefits.
- g) **Economic and financial viability:** Investment proposals should demonstrate the economic viability of investments and the financial viability with the inclusion of time bound SREP resources.
- h) **Leveraging of additional resources:** Activities should maximize the leverage of funds from other partners.
- i) **Gender:** SREP investments should seek to strengthen the capacity of women to be active participants in the economic sector and avoid negative impacts on women.
- j) **Co-benefits of renewable energy scale-up:** SREP investments should include decreased air pollutants from energy production and consumption as well as the potential to reduce stress on forest resources. Investments and activities should elaborate on the potential positive effects on air quality and natural resource management through the adoption of renewable energy technologies.

Programming Modalities for developing investments to be financed by the SREP

24. The SREP programming cycle will include two phases: Support for the development of an investment plan and associated advisory services, and implementation of an investment plan. A programming flow chart for the SREP is presented in Annex C.

Phase 1: Support for the development of an investment plan and associated advisory services

25. *Country request.* Once the SREP Sub-Committee has selected the countries that will be invited to participate as pilot programs, those countries will be invited to confirm their interest in participating in SREP. The country will be requested to designate a SREP focal point to serve as the main contact in the country for the MDBs in developing the SREP investment plan.

26. After the confirmation has been submitted to the CIF Administrative Unit, the designated SREP focal point should send a request to the appropriate country representatives of the

Regional Development Bank and the World Bank Group to invite the MDBs to initiate discussion of the steps required to prepare an investment plan. This request may be sent directly to the MDBs or through the CIF Administrative Unit.

27. The MDBs will be available to assist the country through participation in country-led joint missions. The purpose of joint missions, to be organized in collaboration with the MDBs working in the pilot country (referred to as ‘Joint Mission’), is to assist the pilot country (or region) in SREP programming.

28. *Initial preparation and scoping mission.* Before a Joint Mission takes place, a pilot country should undertake the preparatory work necessary to ensure the smooth conduct and maximum outputs from the Joint Mission. The MDBs are available to assist a country in identifying and undertaking the required preparatory work, if requested by the country. Preparations may usefully include: identifying government ministries, other development partners, and other key stakeholders who should interact with the Joint Mission; consolidating documentation available on a range of analytical, strategic and programming activities related to renewable energy, which can be an important input to the investment plan preparation; undertaking a stocktaking of existing activities in the country that may be relevant to the investment plan; holding preliminary consultations with interested stakeholders, particularly local and regional private sector and civil society organizations.

29. If requested by the country, the MDBs may organize short scoping missions to assist the government in planning and preparing for the Joint Mission. During the scoping mission, the country and the MDBs should also engage with other interested development partners including UN agencies, private industry, civil society organizations and other stakeholders. Such scoping missions may also be used by the government and MDBs to jointly develop the terms of reference for the Joint Mission including its composition, budget, contacts and schedule.

30. A key outcome of the scoping mission will be an assessment of whether the government has sufficient capacity and resources to develop an investment plan. Minimum readiness indicators include: (a) nationally designated institution or lead agency with mandate to engage on renewable energy engagement, and (b) available renewable energy strategy or energy sector development plan laying out goals for renewable energy scale-up in country. A menu of relevant capacity building and advisory services may be prepared for further consideration by the pilot country.

31. In the absence of a formally articulated national strategy/plan, early SREP-funded advisory services will be available for the following activities:

- (a) stock-taking of state of deployment of renewable energy technologies; preliminary estimates of renewable energy potential (note – resource assessments can be proposed for financing under the investment plan); and known barriers to renewable energy uptake or deployment, and
- (b) institutional and capacity analysis – policy and regulatory framework supporting renewable energy deployment (if any); organizations engaged in renewable energy sector (public and private) and their roles; known institutional or capacity gaps.

32. The scoping mission should agree with the government on the scope of assistance needed for phase 1 activities. A grant of up to US\$1.5 million for the development of the investment plan and associated advisory services may be made available to the country. Such funding would be eventually included within the envelope of SREP funding allocated to the country for its SREP program. Requests for the preparation grant should be submitted to the CIF Administrative Unit for approval by the MDB Committee at the time of the request for the first joint mission. This request may also be submitted after the first joint mission.

33. An advance of this grant, up to US\$375,000, may be made available after the initial scoping mission to assist the country to fully engage in leading the design of the SREP program. The important feature is that funding from the SREP can be made available early on to help finance the country's costs of activities under Phase 1. For example, the advance grant could be used to finance: i) consultations with local stakeholders and planning sessions; ii) analysis of potential renewable energy resources, iii) fit with economic development strategy, iv) stock taking of existing activities, including those of other development partners such as bilateral organizations, GEF, UN agencies and NGOs, v) assessment of the enabling environment, and vi) assessment of other financing and investment sources, particularly the private sector, even if this source of financing may only be available in the longer term.

34. The MDB Committee will agree upon guidance to be provided to the pilot countries to assist them in accessing and utilizing these funds. Requests for this advance funding should be submitted to the CIF Administrative for circulation to the MDB Committee for approval. A format describing the information to be included in the request for advance funding of Phase 1 activities is attached in Annex D. The Government should agree with the MDBs on administrative arrangements to facilitate the provision.

35. The CIF Administrative Unit will inform the SREP Sub-Committee of the approval of the advance grant allocation and post the funding request on the CIF website. Progress reports for activities funded by the advanced grant and under phase 1 should be submitted by the pilot country to the CIF Administrative Unit for review at each regular SREP Sub-Committee meeting.

36. As part of the preparatory process, and working with the Government, MDBs should prepare terms of reference (TOR) for the joint mission. The TOR should include the mission composition, Government and MDB contacts (name, institution, telephone number and e-mail address), as well as a preliminary schedule of meetings, consultations and travel. The TOR for the joint mission should identify the roles and responsibilities of each MDB, and arrangements for collaboration with other relevant partners in supporting the government in the development of the investment plan. In particular, arrangements for consultations with other development partners, civil society and private sector should be provided in the TOR.

37. *Approval of TOR by MDB Committee.* The TOR should be submitted to the MDB Committee for approval, including approval of the financing necessary to cover the budgetary requirements for support provided by the MDB. Funds to cover MDB support to country programming of SREP resources will be made available through the CIF Administrative Budget (under "MDB Support to Country Programming of CIF Resources") which is approved annually by the SCF Trust Fund Committee.

38. The MDB Committee review of the TOR should take place during an MDB meeting in sufficient time to allow the CIF Administrative Unit to notify the SREP Sub-Committee once the

TOR are approved. The CIF Administrative Unit should notify the SREP Sub-Committee of the agreed joint mission four weeks in advance and post this information on the CIF website. This advanced notice is intended to facilitate the participation of other development partners and stakeholders in country-led consultations during the joint mission. The MDBs should also actively seek to engage other development partners prior to the joint mission, particularly those already contributing to climate change and energy activities in the country. In some cases, additional joint missions may be needed to develop the investment plan. For all subsequent country missions, the MDB(s) should inform the CIF Administrative Unit in sufficient time so that the Sub-Committee can be notified two weeks in advance of the mission.

39. *Joint Mission.* The objective of the joint mission is to collaborate with the pilot country or region in developing an investment plan for investments to be implemented that are consistent with the overall SREP objectives and meet the investment criteria for programming priorities under the SREP. The Government will lead and coordinate the mission, which will include teams from the MDBs and key government agencies and may also include participation of other development partners, including UN and bilateral development agencies. During the joint mission, consultations should be held with key stakeholders in the country, including other development partners, non-governmental organizations, indigenous peoples groups, local communities, and the private sector. The mission should include consultative workshops, meetings and appropriate field trips, and should be focused on identifying specific opportunities for investments that could lead to scaling up of renewable energy. A report summarizing agreed key findings, information on stakeholder consultations, including a list of local donor and development partners and other stakeholders consulted during the mission, and next steps should be prepared and approved by the Government and should be submitted to the CIF Administrative Unit within 30 days following the completion of the mission. The report will be posted on the CIF website.

40. Joint missions should serve to strengthen country ownership, identify activities of other development partners that could contribute to the programmatic objectives of the SREP Program, mobilize co-financing for SREP investments, ensure harmonized policy support and promote complementarity with on-going activities.

41. In preparing an investment plan, it will be necessary to identify a pipeline of public and private sector investments and their associated costs. During the process of developing an investment plan, recipient countries working with development partners should explore synergies and mobilize complementary resources for assistance, planning and advisory services from other partners or institutions, e.g. MDBs, UN agencies, bilateral and other development partners (see Boxes 1 to 3 in Annex B). The aim should be to create national platforms to “crowd in” appropriate activities and resources to align them with the objectives and goals of the SREP programmatic approach. Additional free standing resources secured to complement SREP funding should be indicated in the investment plan.

42. The outcome of the mission will be an investment plan, developed under the leadership of the recipient country, for the use of SREP resources through a joint program. The investment plan is critical to allowing potential activities and investments financed by the SREP to be structured to respond to each country’s existing strategies and plans and to take account of on-going operations in key sectors or sub-sectors in a country.

43. The investment plan should be owned by the Government and agreed with the MDBs and other development partners, as appropriate.³ It should be a clearly articulated multi-year proposal that would describe the programmatic goals for creating new economic opportunities and increasing energy access through the use of renewable energy, proposed uses of SREP resources, and proposed activities of other development partners that could contribute to achieving the programmatic goals. The investment plans will include concept briefs for proposed investments for SREP funding that provide affordable, clean and reliable energy. The investment plans should also include requests for any investment preparation grants that will be required to develop the investment proposals (see *SREP Financing Modalities*). A suggested structure for the investment plan, including information to be provided, is presented in Annex E.

44. The time required to complete Phase 1 should respond to recipient country needs and readiness. An indicative range of 3–15 months is projected, with an understanding that most of the pilot countries should be able to achieve the aims of this process (submission of the investment plan from the time of the first joint mission) in less than a year's time.

Phase 2: Implementation of Investment Plan.

45. Investments will be prepared and implemented in accordance with the endorsed investment plan, which will include concept briefs for each of the investments to be financed by the SREP. Capacity building and advisory services are likely to be required to support implementation of the SREP plan after its endorsement. Investments addressing these activities will also be described in the investment plan. Activities to capture and share lessons should be included as part of knowledge management components of each individual investment.⁴

Endorsement of Investment Plan

46. The investment plan should be reviewed and finalized through appropriate internal government procedures. A draft of the investment plan should be made available for public information and comment on a government website at least two weeks prior to its finalization. Once approved, the designated Government SREP focal point should send the final plan to the CIF Administrative Unit to be included in the agenda for the next meeting of the SREP Sub-Committee for endorsement. The plan should be submitted to the CIF Administrative Unit at least three weeks in advance of a Sub-Committee meeting.

47. The investment plan will be submitted to the SREP Sub-Committee for its endorsement of the plan as a basis for further preparation of investments. The Sub-Committee will also endorse a resource envelope of SREP financing that could be made available for the proposed investments.

48. As part of the endorsement of an investment plan, the SREP Sub-Committee may provide comments on the investment concepts included in the investment plan and should approve investment preparation grants (if requested) for the further development of the proposed activities.

³ There is no presumption that all MDBs that normally engage with the country need to be involved in the implementation of investments and other activities.

⁴ See *CIF Knowledge Management: Creating the Capacity to Act* (CTF-SCF/TFC.4/4, March 2010).

Preparation of SREP Investments

49. Based on the endorsed investment plan, each MDB will work with the appropriate investment partner (public and/or private) to prepare the investment proposals.
50. The SREP programming, approval and supervision processes will follow the MDB policies and procedures, including the relevant MDBs' environmental and social safeguards, fiduciary, and disclosure policies.

Decision on SREP Financing for Investments

51. Prior to appraisal of a public sector investment, the proposal will be submitted to the SREP Sub-Committee for approval of SREP financing. The request for approval should indicate the proposed financing modality to be used in the investment, e.g., grant, concessional loan, guarantee, performance-based incentive mechanisms-associated contributions). (See *SREP Financing Modalities*). Such approval may be sought through a decision by mail of the SREP Sub-Committee.
52. For private sector investments, the MDB will submit a proposal that will include investment criteria and relevant country and investment information. When submitting a private sector investment proposal to the Sub-Committee for approval of SREP financing, each MDB will have to balance the level of detail required to seek Sub-Committee approval of the financing with the need to manage client expectations.
53. Each MDB may choose, when, within its own internal process, to submit a proposal. In all cases, this should be prior to an MDB's final Board approval. The request for approval should indicate the proposed financing modality to be used in the investment. Such approval may be sought through a decision by mail of the SREP Sub-Committee.
54. After approval of SREP financing by the Sub-Committee, the MDB will follow its policies and procedures for final approval of the investment.

Monitoring and Evaluation

55. The SCF Trust Fund Committee will approve a results framework aimed at measuring the impact of SREP. Each MDB is responsible, in accordance with its procedures, for monitoring and evaluating the outcomes agreed in the results framework. MDBs should strive to incorporate a consistent sub-set of indicators in their investment level monitoring frameworks to support the overall SREP Results Framework.
56. The MDBs will report annually to the SREP Sub-Committee through the CIF Administrative Unit on the SREP-financed activities.
57. The SREP Sub-Committee will report to the SCF Trust Fund Committee on results, outcomes and lessons learned from the pilots at the programmatic, country and investment level, based on the monitoring results of the MDBs and the results of the SREP Sub-Committee's review of effectiveness and impact of SREP programs and activities.

58. An independent evaluation of the SREP will be carried out jointly after three years of operations by the independent evaluation departments of the MDBs.

59. Lessons learned and results achieved through the SREP will be published and made publicly available.

Annex A: Capacity Building and Advisory Services Supporting Delivery and Results Definitions, Services and Examples

Activity	Definition	Services	Examples
Advisory Services	<p>Activities that build the institutional and human resource capacity of relevant ministries, agencies, public and private sector organizations, and other relevant stakeholders.</p> <p>These activities involve the delivery of expert programmatic and advisory support, working knowledge and consulting services by local and external specialists to support the design and implementation of the SREP Program.</p> <p>This is recognized as a long term process that will start in the pre-investment phase and continue during the development of the Investment Plan and the implementation of investment activities.</p>	Policy Development and Planning	<ul style="list-style-type: none"> - Create a policy environment to support the introduction of new RE technologies. - Support and train planners and regulators to develop or fill gaps in policy frameworks and plans for RE and in doing so address risk integration, cost minimization and price predictability, as well as development of financial incentives for RE technologies. - Support to link policies and plans to country economic and human development strategies, poverty reduction, gender equality, MDG achievement, etc. - Assistance with the integration of SREP plans into national energy plans and strategies - Support the development of policies that open market access and monetize social/ environmental benefits and costs - Support long term planning processes to ensure complete grid networks
		Legal and Regulatory Framework Development	<ul style="list-style-type: none"> - Support legal and regulatory framework development - Identify gaps or impediments, as well as enablers for RE adoption at scale - Assistance in translating policy support into binding, effective and enforced measures⁵ - Design of incentives for off-grid RE investments
		Institutional Development and Capacity Building	<ul style="list-style-type: none"> - Support to develop appropriate institutional arrangements to transform existing institutions, and/or establish new ones, to implement and support deployment of on-grid and/ or small-scale, decentralized RE systems - Strengthen capacity of local/district level authorities to coordinate activities on the ground; increasingly service delivery is being decentralized in many countries.

⁵ Examples of successful instruments used in developed and developing countries: mandated RE targets such as Renewable Portfolio Standards (RPS) used in India and China to specify targets for certain fuel types in the country's energy mix; Electricity Feed Law (EFL) used in Germany; payment of avoided costs used to determine tariff pricing such as those used in Indonesia; and the Public Utility Regulatory Policies Act (PURPA) used in the US to create a market for non utility electric power producers whereby utilities pay for power supply at the avoided cost rate.

Activity	Definition	Services	Examples
			<ul style="list-style-type: none"> - Support engagement with communities that play a role in delivering energy services in rural areas - Streamline administrative processes to enable market engagement - Clearly articulate the roles of various stakeholders including, but not limited to the private sector, public sector, regulator and utilities - Build technical, engineering, business and finance capacity, including for example policy makers, planners and among regulators; domestic financial sector; utilities; industry.
		Market Development	<ul style="list-style-type: none"> - Develop strategies that support private sector investment - Assistance to design public-private partnerships for risk sharing or to buy down the first cost of for example PV systems⁶ - Help countries adapt to changing market needs⁷; investment designs must be able to quickly adapt to market conditions so that responsive solutions are created to address barriers - Investment size: assist countries to design innovative ways to bundle multiple investments into pipelines of orders to get sufficient interest from suppliers for smaller investments; a critical mass of manufacturing and a stable market are needed to attract qualified manufacturers to manufacture locally - Information: consider placing RE resource data in the public domain to increase private engagement and competition, thus lowering costs for grid and off grid connected RE
		Financial Services	<ul style="list-style-type: none"> - Increase access to long-term investment financing, and introduce risk management and credit enhancement instruments - Lower transaction costs to improve investment fundamentals – including the processes involved in investment development – from pre-investment to investment commissioning - Standardize contracts and procedures, increase transparency, and minimize bureaucracy

⁶ Commercial retail market opportunities do exist in developing countries, as demonstrated by World Bank experiences in China, India, Kenya, and Sri Lanka, among others.

⁷ E.g. in the case of solar PV extending the eligibility of PV system sizes to smaller, more affordable systems (e.g. solar lanterns), or introducing loan guarantee facilities or capacity building support to entrepreneurs and microfinance institutions.

Activity	Definition	Services	Examples
			<ul style="list-style-type: none"> - Support innovative, financial engineering for off-grid RE systems that work together with and leverage other co-benefits (e.g. social and environmental)⁸. Micro financing needs to be explicitly recognized. - Leverage new financing instruments, such as carbon finance (below).
		Carbon Finance	<ul style="list-style-type: none"> - Make carbon finance tools widely available to stakeholders through for example, standardized lending documents, banker training, using mezzanine finance schemes, employing risk mitigation instruments and guarantees, building finance sector capacity, support for carbon asset assessment at investment concept stage
		Resource Assessment, Technical and Pre-Investment Studies	<ul style="list-style-type: none"> - RE resource assessment: support better quality mapping, and additional point measurements to calibrate resource atlases and reduce investment risk. Provide access to credible and long term resource information, for example wind, hydrological or direct normal irradiance maps. - Adapt technologies to local conditions⁹ and provide training for product installation - Develop standards for RE technology performance, reliability, safety and work to ensure and demonstrate system compatibility within and across countries¹⁰ - Support optimization of energy systems – generic analysis of each section of the transmission grid to calculate the approximate cost of connecting various amounts of power generation in each section of the grid - Support pre-investment studies - Support research into better design concept for small wind turbines intended for the off-grid market. Facilitate market uptake by developing for example standard investment packages - Ensure system quality including access to spare parts and trained repair services must be an integral

⁸ E.g. Long-term loans with manageable debt service ratios, Micro credit financing for decentralized small-scale RE (SHS, household biogas, pico-hydro, etc.), Monetized environmental benefits/carbon credits, supporting risk guarantees, Vendor credits

⁹ E.g. climatic and environmental risks such as tropical cyclones

¹⁰ Product certifications and standards are especially important for small-scale PV, solar water heater, pico-hydro, and biogas systems to ensure that consumers are not stuck with low quality products. Larger RE systems such as wind, mini-hydro, and biomass combustion/gasification should be subject to commercial standards that are comparable to conventional energy systems.

Activity	Definition	Services	Examples
Knowledge Management	<p>Activities aimed at building communication:</p> <ul style="list-style-type: none"> - Within SREP Program at a country or investment level on common issues, experiences and best practice during the design and implementation of the SREP Program; - Between SREP Program participants and countries, public and private sector, researchers and others on relevant best practice and experience for the large scale up of RE. 	<ul style="list-style-type: none"> - Support cross-sector approaches that involve all stakeholders including consumers and affected communities, to energy suppliers and financiers. - Share information and/ or best practice on technologies - Support study tours or exposure to best practice in countries with large scale RE in the grid - Disseminate relevant best practice from countries with a high share of RE in the grid - Facilitate knowledge exchange between SREP recipient countries - Provide training for policy makers, regulators or other key stakeholders 	<p>part of any off-grid program design</p>
Outreach	<p>Activities aimed at sharing the lessons and experience gained under the SREP Program and investment activities with other developing countries (i.e. that are not directly engaged in the SREP program) and organizations interested in scaling up renewable energy in low income countries.</p>	<ul style="list-style-type: none"> - Workshop, seminars, and south-south knowledge exchange - Dissemination of best practice, tools and experience 	

Adapted from: CEIF, ESMAP, Mendis, World Bank Group

Annex B: Providing Capacity Building and Advisory Services Supporting Delivery and Results

1. *Eligible* advisory services and knowledge management activities include (see also Table 1):

- policy development and planning
- legal and regulatory framework development
- institutional development and capacity building
- market development
- financial services
- carbon finance
- resource assessment, technical and pre-investment studies
- knowledge management,
- outreach

2. Advisory services will be available to recipient countries during both phases of the SREP programming cycle: Support can be provided to recipient countries in Phase 1 to assist governments in scoping capacity building and advisory services supporting delivery and results and identifying partners. MDBs and UN Country Teams (UNCTs) could be mobilized to help with initial coordination and dialogue under this process. A roster of available MDB and UN experts will be made available to recipient countries.

3. *Role of UN System.* By harnessing the combined strengths of the UN system, recipient governments, MDBs and other stakeholders can dramatically advance SREP. UN Country Teams (UNCTs) have a significant history of engagement in working with national/provincial/local governments, industry, the finance sector and civil society, reflecting neutrality and trust which can contribute to the success of SREP. UNCTs – chaired by the UN Resident Coordinator (RC) – can provide:

- *Integrated development services* to program countries through coordinated UN-wide planning (UNDAF) and joint program implementation/delivery (Joint Programs) under the “Delivering as One” guiding principle. SREP can benefit significantly by tapping these established mechanisms through which UNCTs can offer concrete advisory services to SREP programs on the ground.
- *National aid coordination* including MDBs and bi-laterals, in line with the Paris Declaration - this would ensure programmatic coherence and synergies with relevant UN and other programming on renewable energy in country.
- *National consultative processes* to ensure full national ownership. A strategic 5-year Results Based Framework with Governments guides UN operational activities thus ensuring national ownership. The integration/linkage of SREP into this framework would deepen the commitment by both governments and development actors alike to SREP objectives and programming.

4. The specialized technical expertise of UN agencies can be best coordinated at the national level under the auspices of UNCTs based upon specificity of the SREP needs in each

national context to best respond to local demands. UNCTs, as needed, will be assisted by existing advisory capacities within the UN system in identifying relevant national/regional/global centers of excellence and sourcing specific advisory services from within and outside UN system.

5. An indicative “menu of capacity building and advisory services” available from the UN agencies will be provided to recipient countries (See Box 2). Such services may include (but are not limited to) technical assessments and analysis, program design, knowledge sharing (e.g. good practices), institutional strengthening, norms setting, policy options, national energy planning processes, financing options, linkages to national development plan processes, energy service delivery mechanisms, functional skills enhancement, relevant program management and monitoring and evaluation. Working with the relevant Government entity, the Resident Coordinator and the UNCT can identify which UN agency has the comparative advantage in provision of the requested services. Recognizing that SREP funding is to flow through the MDBs, the MDB Committee will agree upon procedures to facilitate the provision of services by the UN Country Teams if so requested by the country.

Financing Guidelines for Capacity Building and Advisory Services Supporting Delivery and Results

6. Grant financing will be made available to support capacity building and advisory services activities in SREP programs. Knowledge management activities and tools will be provided in accordance with the CIF’s knowledge management strategy approved by the Joint CTF and SCF Trust Fund Committees in March 2010. Through the CIF Global Support Program, pilot countries will be assisted to share experiences, build South-South partnerships and address common technical challenges.

7. A combined grant amount of up to \$1.5 million will be available for activities in support of Phase 1 (preparation of investment plan) for single country pilots. The investment plan is also expected to provide for delivery of capacity building and advisory services during implementation.

BOX 1 - RENEWABLE ENERGY MARKET TRANSFORMATION INITIATIVE (REMTI)

Energy Sector Management Assistance Program (ESMAP)

In 2009, ESMAP launched the Renewable Energy Market Transformation Initiative, a multi-year initiative to help countries build their institutional capacity to develop, plan and implement strategies to quickly deploy select renewable energy technologies – chiefly solar, geothermal, wind and small hydroelectric power. ESMAP hopes to achieve ‘win-win-win’ solutions to interlinked challenges: enhanced energy security through diversified supply, greater energy access, and a transition to low carbon paths.

REMTI concentrates on preparatory work needed in the early stages of project development and provides technical assistance, knowledge sharing, and capacity support to help countries gain access to financing. It complements and leverages several existing and developing multilateral initiatives, facilities and funds within the World Bank Group and related international financial institutions including the Climate Investment Funds.

REMTI focuses on four areas of engagement:

1. **Country renewable energy market transformation strategies** that support the role of RE technologies in achieving broader client goals of enhanced energy security, access and supply diversification as well as climate change mitigation.
2. **Renewable energy technology deployment roadmaps** to scale up investment by public/ private developers in grid-connected power generation facilities using RE resources.
3. **Renewable energy market development support mechanisms** to help reduce the associated financing risks of private/ public developers of grid-connected power generation facilities using RE resources.
4. **Knowledge exchange** to share ESMAP lessons learned and foster capacity building with clients using knowledge products generated from country RE market transformation strategies and RE technology deployment roadmaps – modeling toolkits, best practices, ‘how to’ guidance, and interactive training.

ESMAP is a global knowledge and technical assistance program administered by the World Bank and assists low- and middle-income countries to acquire the know-how and increase institutional capacity to secure clean, reliable and affordable energy services for sustainable economic development. ESMAP provides funding through World Bank executed grants. For more information on ESMAP: <http://www.esmap.org>

BOX 2 - UNITED NATIONS AS A GLOBAL KNOWLEDGE NETWORK

UN organizations represent a global knowledge network on development issues, including renewable energy. UN organizations provide capacity building services, advisory assistance, expertise and knowledge on renewable energy systems, with different focuses according to the specific programs supported by the respective organizations.

UN experience in promoting renewable energy in developing countries stretches over three decades. This experience allows relevant UN agencies (e.g. UNDP, UNEP, UNIDO) to contribute to the objective of rapidly scaling up renewable energy options that contribute to advancing countries' development goals and addressing climate change challenges.

UNDP, UNEP and UNIDO, for example, collectively host several dozens of energy advisers working on renewable energy, in addition to a network of more than a thousand professionals involved in project-level activities from global to community levels in more than 120 developing countries at present. The UN's menu of advisory and capacity building services include:

- Linking renewable energy to national development strategies;
- Facilitating national/local multi-stakeholder dialogues and policy planning;
- Analyzing and designing policy and financing options on renewable energy, especially for decentralized options;
- Designing and enhancing institutions and delivery mechanisms, particularly for off-grid energy solutions;
- Developing human expertise and skilled professionals at all levels, from local communities up to the national policymakers; and
- Sharing lessons and good practices.

BOX 3 – ASIA SUSTAINABLE AND ALTERNATIVE ENERGY PROGRAM (ASTAE)

Created in 1992, the Asia Sustainable and Alternative Energy Program has been instrumental in transforming the World Bank's energy portfolio in East Asia and selected countries of South Asia towards sustainable energy. ASTAE's support, structured around Renewable Energy, Energy Efficiency and Access to Energy, assists countries at all stages of project development (including early program/ project identification through to implementation, fund mobilization and impact monitoring).

Key areas of support for Renewable Energy include:

- Enhancing policy and regulatory frameworks
- Developing innovative delivery mechanisms (such as risk guarantees to the private sector)
- Building capacity and sharing knowledge (including for resource mapping)

In future ASTAE proposes to support mainstreaming of new technologies and to promote cross sector collaboration for climate change mitigation and adaptation.

ASTAE provides funding through World Bank executed grants.

Annex C: Programming Flowchart for SREP

Steps/Actions Required	Agency Responsible	Performance Standards
<p>I. Concept & Preparation</p> <p>1. Upon invitation of government, MDBs conduct scoping mission and other joint mission(s) to provide inputs to the development of SREP programming.</p> <p>MDB scoping mission and MDB joint missions, including preparation of Phase 1 funding proposal if required, and identification of investments proposed as part of Investment Plan</p> <p>Coordination meetings with development partners</p> <p>Preparation of Investment Plan</p> <p>Public disclosure and finalization of the Investment Plan</p> <p>Finalization of Investment Plan by Government.</p>	<p>MDB(s) and Recipient Country Government</p>	<p>According to criteria and guidelines established by SREP Sub-Committee (SC), including coordination with other development partners.</p> <p>MDB investment lending guidelines for identification and investment concept review.</p> <p>Public disclosure at least two weeks prior to submission of IP to CIF Administrative Unit</p> <p>Investment Plan posted on CIF website</p>
<p>2. SC reviews and endorses Investment Plan, and agrees on MDB designation for operations, eligibility and priorities for investments, and indicates notional resource envelope for such activities.</p> <p>MDB Committee approves requested preparation grants for proposed investments.</p>	<p>SREP-SC</p>	<p>At periodic SC meetings.</p>
<p>3. MDB supports preparation of individual investments by borrower or private sector client.</p>	<p>Client & MDB</p>	<p>According to MDB</p>

<p>Examples of key MDB steps: investment concept brief review, quality enhancement review, appraisal decision.</p> <p>MDB to include an external technical peer reviewer in its standard review/clearance steps for investment processing</p>		<p>operational policies and procedures, consistent with endorsed Investment Plan</p>
<p>II. Appraisal-Negotiations-Board-Effectiveness</p>		
<p>4. MDB submits investment proposal to SREP-SC for no-objection approval of trust fund financing.</p> <p>Upon SREP-SC approval, Trustee commits funding to MDB</p>	<p>MDB & SREP-SC Trustee</p>	<p>Virtual review as necessary.</p>
<p>5. MDB conducts appraisal, negotiates legal agreement with client or legal contract with private sector client, and submits investment for approval by its Board.</p> <p>MDBs will resubmit a investment to the SREP Sub-Committee for review and a second approval, if the final investment design results in: (i) substantive changes in the investment’s objectives, design or implementation arrangements; (ii) the changes require an increase in SREP co-financing of the investment’s budget; or (iii) the ratio of funding from MDB/other financing sources to SREP funding decreases more than 10% from the original leverage ratio. In such cases, the investment document will be resubmitted to the SREP Sub-Committee for approval of SREP financing on a no-objection basis for a period of 10 working days prior to being submitted through the MDBs’ internal approval processes. Other changes to a investment design will be reported by the MDB through annual reports but will not require further approval by the SREP Sub-Committee.</p>	<p>MDB</p>	<p>Appraisal within 3 months of SREP SC no-objection approval.</p> <p>According to MDB operational policies and procedures.</p> <p>Target: Investment Plan review by SREP SC to Board submission in 18 months.</p>
<p>6. Signing and effectiveness of legal agreement with client or legal contract with private sector client</p>	<p>MDB and/or Client</p>	<p>Applicable MDB procedures and standards</p>
<p>III. Implementation & Supervision</p>		
<p>7. Investment implementation, including monitoring of physical and financial progress in achieving results.</p>	<p>Client</p>	<p>As provided for in the legal agreement and investment operational manual</p>
<p>8. Supervision and amendments of investment activities under implementation, including</p>	<p>MDB</p>	<p>Applicable MDB policies</p>

reallocation of loan proceeds.		and procedures.
IV. Evaluation & Completion Reporting		
9. Evaluation	Client	As provided for in legal agreement and investment operational manual.
10. Investment completion report Upon submission of such report to Board, MDB submits final completion report to CIF Administrative Unit	MDB	Applicable MDB policies and procedures. Within 10 working days of Board submission.
11. Independent review of the investment completion report	MDB Evaluation Department	Applicable MDB policies and procedures.
12. Annual Portfolio Review submitted to CIF Administrative Unit. Administrative Unit convenes annual portfolio review meeting, prepares overview report on Fund operations, and forwards MDBs' annual portfolio reviews to SREP SC. Review and adoption of SREP Annual Report on Fund operations.	MDB Administrative Unit SREP-SC	Reporting from Results Measurement System Decision at regular meetings of SREP-SC

Annex D: Format for Requesting Advance Funding for Phase 1 Activities

1. Country/Region		
2. Requested amount of funding		
3. Multilateral Development Banks/focal points:	MDB and MDB Lead	Focal Points
4. National executing agency		
5. Broad outline of activities to be supported		
6. Expected output		
7. Implementation arrangement for funding		
8. Cost estimate and budget		
9. Timeframe		

Annex E: Suggested Structure of Investment Plan

I. Proposal Summary (2 pages)

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

II. Country Context (3-4 pages)

- Energy sector description (market structure, demand supply, and dispatch composition, electricity cost and pricing) incl. renewable energy status
- Gap/barrier analysis; needs assessment

III. Renewable Energy Sector Context (3-4 pages)

- Analysis of RE options (technology, cost, mitigation potential, barriers)
- Government plans or strategy for the sector (willingness to move towards renewable energy investments, existing or envisioned policy, regulation, plans, and resource allocation)
- Institutional structure and capacity (technical, operational, financial, equipment supply, information)
- Role of private sector and leverage of resources
- Ongoing/planned investment by other development partners

IV. Contribution to National Energy Roadmap (2 pages)

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

V. Program Description (6-8 pages)

- Capacity building and advisory services
- Investment preparation activities
- Technology deployment investments
 - Parallel activities to be funded by other development partners

VI. Financing Plan and Instruments (3-4 pages)

- Budget envelop for investments

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

VI. Additional Development Activities (2-3 pages)

- Leverage complementary co-financing with other development partners such as bilaterals, private sector, and financial institutions

VIII. Implementation Potential with Risk Assessment (2 pages)

- Country/regional risks - institutional, technology, environmental, social, financial
- Absorptive capacity for SREP and leveraged resources

IX. Monitoring and Evaluation (1/2 page)

- Results framework table

Annexes

Information should be included in annexes on the following areas:

- assessment of country's absorptive capacity
- stakeholder consultations
- co benefits
- existing activities in the field of renewable energy, particularly activities of other development partners

For each Investment Plan component, an investment concept brief (maximum two pages) should be provided as annex 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)
- Results indicators
- Financing plan
- Project preparation timetable
- Requests, if any, for investment preparation funding