

September 16, 2010

Comments from Norway on the *SREP Programming Modalities and Operational Guidelines* and
the SREP Financing Modalities

Dear Patricia

We would like to thank Oliver for constructive text suggestions. They are acceptable to us, with two minor adjustments:

I have copied Oliver`s suggestions below, with our amendment in yellow:

However, a possible compromise might be to add to Para.4 (a) as follows: "...renewable energy investments tend to have higher initial capital costs, as well as costs related to additional storage or reserve capacity." In relation to their proposal on Para.53, we propose the following modification to the sentence in question: "...that have the potential of being replicated in the future without, or with a possibly reduced level of, public support".

We also endorse Oliver`s suggestion to add a note to Para 21 of the programming modalities paper that calls for a review of the proposed criteria once at least three investment plans have been submitted (Or this could be after a set time period, say 18 months).

Both alternatives are acceptable to us, and we suggest that the CIF adm unit selects the formulation you find most appropriate.

Thanks and regards,

Bente Weisser

September 10, 2010

**Comments received from the US on SREP Financing Modalities and
SREP Programming Modalities and Operational Guidelines**

Colleagues,

Please find U.S. comments below (and attached).

* The main "Programming Modalities" section, and in particular (new) paragraphs 28-35, are confusing and need to be streamlined. We are happy to offer some detailed suggestions on this. One key suggestion would be to make the text (including both the headings and the terms used) consistent with the 12 steps from the table on page 4.

* To avoid confusion and provide context, a short paragraph should be added to the top of Annex three to underscore how capacity building fits into the broader programming model. For example:

"CAPACITY BUILDING AND ADVISORY SERVICES ACTIVITIES 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 ONLY, CAPACITY BUILDING AND ADVISORY SERVICES ACTIVITIES MAY ALSO BE DELIVERED SEPARATELY AND FUNDED INDEPENDENTLY FROM THE INVESTMENT ACTIVITY.

Eligible Advisory Services...include..."

* Additionally, the text in caps below should be added to the end of last sentence of para 5 of annex 3:

"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, WHICH ARE CONSISTENT WITH THE ENVIRONMENTAL AND SOCIAL SAFEGUARDS, AND FIDUCIARY AND PROCUREMENT STANDARDS OF THE FACILITATING MDB."

Regards,

Daniel

September 10, 2010

**Comments received from the Solomon Islands on SREP Financing Modalities and
SREP Programming Modalities and Operational Guidelines**

Dear all,

Let me thank Oliver for his suggestion. reference to Bali Action without operating within its letter and spirit is paying lip service to the Bali Action Plan. Hence during our discussion I continue to argue we must look at the most vulnerable countries.

On the issue of funds, as earlier stated the modalities sets out the guiding principle that World Bank managing the funds is too big and expensive to look at small LDCs. Challenge is we all went away from the meeting agreeing that our input will be reflected. Hence the issue before all of us.

Best regards

Collin

September 10, 2010

**Comments received from the UK on SREP Financing Modalities and
SREP Programming Modalities and Operational Guidelines**

Dear SREP Sub-Committee Members,

The UK is happy with the proposed changes to the financing modalities and the programming modalities papers, and we thank the Co-Chairs and the CIF Admin Unit for the work they have done to respond to all our comments.

However, further to the comments submitted by the Solomon Islands and Norway (attached), the UK has some suggested compromise proposals that would allow us to move forward and approve these papers. As we have said previously, we believe that it is in the interests of all parties that SREP reaches the implementation stage as soon as possible, and we would very much like to avoid having to wait until the November meeting for these papers to be approved. Fostering a spirit of collaboration and compromise is central to the governance arrangements of all the Climate Investment Funds, and we therefore hope that a solution that works for all parties can be reached.

With regard to the comments submitted by the Solomon Islands, we note that the Bali Action Plan is now referred to in Para.3 of the Financing Modalities Paper. We assume that this addition addresses this specific concern. With regard to the issue of project preparation grants, and the amounts suggested, we propose two things: i) That we adopt the proposed amounts as the standard allowance, but include a provision for recipient countries to request a larger allocation if their needs require it. This would need to be approved by the SREP Sub-Committee. ii) That we include a provision to review the proposed amounts, perhaps after 18 months. We hope these suggestions will be amenable to the representative from the Solomon Islands so that the initial round of countries can begin to draw up their investment plans, and SREP can move to the implementation stage. This is in all our interests we think.

With regard to the comments submitted by Norway, we do not believe that intermittency requires a special mention in the list of barriers under Para.4 of the programming modalities paper. However, a possible compromise might be to add to Para.4 (a) as follows: "...renewable energy investments tend to have higher initial capital costs, including **costs related to additional storage or reserve capacity**." In relation to their proposal on Para.53, we propose the following modification to the sentence in question: "...that have the potential of being replicated in the future without, **or with a reduced level of, public support**". Finally, on the issue of hybrid systems, our understanding is that inclusion of fossil fuels would present major problems for several donor countries. It is unclear what demand there will be for hybrid systems that include a fossil fuel component, but in any case it is likely that SREP funding will not be the sole financing available for an individual project. This should mean that projects with a fossil fuel component can secure financing from other sources - as already stated in the text. Nevertheless, it may be prudent for the SREP Sub-Committee to reconsider this issue once we have a clearer idea on the structure and content of country investment plans. We therefore suggest that a note is added to Para.21 of the programming modalities paper that calls for a review of the proposed criteria once at least three investment plans have been submitted? (Or this could be after a set time period, say 18 months).

We hope that these suggestions are well received.

Kind regards,

Oliver Knight

September 8, 2010

**Comments Received from Norway on SREP Financing Modalities
and SREP Programming Modalities and Operational Guidelines**

Dear all,

Due to the holiday season, we unfortunately were not able to be part of the earlier exchange of comments to the SREP Programming Modalities and Operational Guidelines, and Financial Modalities.

We however have the following comments (see the attachment for further explanation), with the main points summarized here:

1) There are real additional risks associated with renewable energy technologies that will not disappear, the main one being the intermittent nature of the source of energy: The available wind can never be well predicted, rainfall follows patterns but will always be stochastic, availability of fuel for bio-fueled power plants carry additional risks compared to fossil fuels, the sun shines at varying intensity that is hard to predict. In addition the capacity factor of all renewable energies is low. The document suffers from a lack of an understanding of these inherent additional real risks. A new item could be added to the list in 4:

The intermittency of production from renewable energy sources adds an uncertainty and thus a risk element that will most likely exist in the foreseeable future. The intermittent nature of renewable energy reduces its utilization value compared to energy from conventional technologies. It also adds costs to the total energy system if reliability of supply is desired. The need to subsidize renewable energy will thus most likely remain in the foreseeable future.

Thus, item 53s requirement “potential of being replicated in the future **without further subsidies**” is too strict and the first sentence should be modified to something along these lines:

*SREP will offer concessional finance and equity products to support private sector projects and programs investments and activities that are particularly promising.
(.....)*

2) In item 21 the funding for non renewable components of hybrid systems are excluded from SREP financing. This is contrary to the Norwegian position. To get the maximum use of stable and reliable renewable energy power supply, a hybrid component will in most cases be necessary. Renewable energies like sun and wind are dependent on the weather in the moment, having intermittent capacity. Thus one needs either storing capacity like batteries (which are very expensive for anything which is more than small amounts of energy), or back up in a form which can easily bridge the gap and give capacity when there is no or little wind, cloudy, night or when there is peak-time consumption higher than the production from the renewable system. The deliverables from renewable systems have to be stable and predictable to be seen as a viable alternative to more dirty options. Thus, by excluding financing non renewable components of hybrid systems, we are undermining the goal of expanding large scale use of renewable energy.

Thanks and regards,

Bente Weisser

Attachment:

Financing modalities

The changes made in the document may seem large at the first glance in the version with track changes. However, the main changes are connected to the cost recovery of the MDBs, which we understand will be elaborated in a new document applying to all the SCFs. Also the procedures for approval of appropriation for investment plans has been changed as was agreed in the subcommittee meeting in June, ie, approval by MDB committee and information to SREP subcommittee. The cap is changed from 25% to 375.000 USD. The Governments shall be free in choosing MDB with whom to cooperate.

Norway has the following comment to the approach of the document:

The very reason for establishing a mechanism such as SREP is that the cost of renewable energy in too many cases is higher than the alternative. The reasons for this are complex and connected to cost of the actual investments and also the risks associated. Risks are described as real and perceived. The perceived risks are elaborated at length, leaving an impression that change in perception will bring the risk level of renewable energy technologies at par with conventional technologies. This is a misunderstanding. There are real additional risks associated with renewable energy technologies that will never disappear, the main one being the intermittent nature of the source of energy: The available wind can never be well predicted, rainfall follows patterns but will always be stochastic, availability of fuel for bio-fueled power plants carry additional risks compared to fossil fuels, the sun shines at varying intensity that is hard to predict. In addition the capacity factor of all renewable energies is low. The document suffers from a lack of an understanding of these inherent additional real risks. A new item could be added to the list in 4:

The intermittency of production from renewable energy sources adds an uncertainty and thus a risk element that will always exist. The intermittent nature of renewable energy reduces its utilization value compared to energy from conventional technologies. It also adds costs to the total energy system if reliability of supply is desired. The need to subsidize renewable energy will thus most likely remain in the foreseeable future.

Thus, item 53s requirement “potential of being replicated in the future without further subsidies” is too strict and the first sentence should be modified to something along these lines:

SREP will offer concessional finance and equity products to support private sector projects and programs investments and activities that are particularly promising. (.....)

Programming modalities

There are few substantial changes made in the document. The choice of development partner is left to the receiving country, and modalities for appropriation of the investment planning funds are changed as described above. Civil society is mentioned explicitly. Major apparent changes in the document with track changes are due to the change from “project” or “program” to investment. A large part of the document has been deleted (para 20 to 30) since it is already covered in Annex B.

In 21 the funding for non renewable components of hybrid systems are excluded from SREP financing. This is contrary to the Norwegian position. Renewable energies like sun and wind are dependent on the weather in the moment, so called “intermittent capacity”. Thus one needs either storing capacity like batteries (which are very expensive for anything which is more than small amounts of energy), or back up in a form which can easily start up and bridge the gap and give capacity when there is no or little wind, cloudy, night or when there is peak-time consumption higher than the production from renewable. **The deliverables from renewables have to be stable and predictable to be seen as a viable alternative to more dirty options. Thus, by excluding non renewable components of hybrid systems, we are undermining the goal of expanding large scale use of renewable energy.**

September 5, 2010

**Comments Received from the Solomon Islands on SREP Financing Modalities
and SREP Programming Modalities and Operational Guidelines**

CIF Administrator,

Thank you for the information, let me make specific request for a face to face discussion on SREP outcome at Committee level. Input from Solomon Islands has not been taken into consideration As presented does not take into consideration the Bali Action Plan. My delegation continue to have difficulty reference to 1.5 million and additional 350 project preparation. It takes away the life and connection of the facility from SIDS, LDCs and vulnerable countries.

In short Solomon Islands has reservation with the outcome as presented.

Best regards
Collin