CLIMATE INVESTMENT FUNDS

August 19, 2015

APPROVAL BY MAIL: DEDICATED PRIVATE SECTOR PROGRAMS (DPSP) - UTILITY SCALE SOLAR PHOTOVOLTAIC SUB-PROGRAM (IFC) CTF

Response Submitted by IFC to the comments raised by the Trust Fund Committee

UTILITY-SCALE SOLAR PV SUB-PROGRAM: STAGE 2

IFC responses to the comments from CTF Trust Fund Committee members

Comments from Brazil

Comment There seems to be a discrepancy between the size of the program and the ambition of the IFC to reach Latin-American countries and African countries in general. The first stage of the program focused in just one country, Honduras, providing USD 20 million, but the current proposal is just slightly larger (USD 30 mi) and intends to reach a broad range of countries in two continents.

IFC response

- IFC expects that CTF funds from Stage 2 of the Sub-Program will support and enable two to four first-mover private sector utility-scale solar PV projects in up to three CIF. This Stage of the Sub-Program is built around an initial pipeline of solar PV projects across the LAC and Africa regions, including projects in countries indicated in the proposal.
- However, given the complex regulatory circumstances and daunting first-mover challenges, it is likely that not all the project from the current pipeline will be able to reach financial closure. Further, with IFC continuing its strong presence in solar PV sector through country engagements and strategic global programs (such as Scaling Solar), other projects can enter the pipeline based on their readiness and likelihood of reaching financial closure. The pipeline is likely to evolve over time.

Comment The fact is that just a few countries will benefit from this program, but there are no clear guidelines for selecting which countries will receive support. The proposal is too broad, and more clarity should be provided on the context for implementing the proposed investments. For instance, what are the market conditions for applying this program in these countries?

IFC response

- The proposal follows the spirit of the original *Utility scale renewable energy: solar photovoltaic program* outlined in DPSP II paper. Deals receiving support from the Sub-Program will respond to the objective established by that DPSP program to "[]*enable the scaling up of these renewable energy technologies with an initial focus in Africa and Latin America and the Caribbean (LAC)*" by facilitating "*the development of projects that would not materialize otherwise.*"
- Sub-projects will be selected and prioritized based on the following eligibility criteria: (i) suitability of PV to the energy supply mix of a particular country; (ii) alignment with IFC country strategy; (iii) likelihood of success and replication; (iv) sufficiently mature regulatory framework; (v) commercial projects have neither been done nor foreseen to happen in the near future. CTF funds will only support those pioneer sub-projects that are testing new regulatory frameworks and/or recent regulatory enhancements. Additional factors affecting sub-project selection are: solar resource (global horizontal irradiance), competing generation technologies/costs and energy mix composition, demand for power, sector governance, and others.

Comment	As a consequence of the broad scope of eligible countries, the data presented to describe the "energy sector context" does not seem adequate. There are significant differences between the countries in each region, which are not made transparent in this document. For instance, the data is presented for LAC and Africa as a whole, but it is not clear if it excludes the ineligible countries, such as South Africa, Chile and Mexico. This should be clarified to provide a realistic picture of the energy context in the areas where the program may be implemented. We are confident that the IFC acts based on up-to-date information on the market reality in client countries, and we expect adequate information to be provided to the Committee in order for an analysis of the proposal to be made. This is required for any CTF proposal presented as a part of a country Investment Plan, and we see no reason for the same standard not to be applied in the case of the DPSP.
IFC response	• The two regions covered in the proposal are, indeed, large and diverse. Levels of economic development, financial markets liquidity, and energy access are significantly different among various countries. As such, information included in Sections 1.2 – 1.4 of the proposal is only intended to provide an overall view on challenges and opportunities faced by the regions. Most of the aggregate or average numbers do include the information on all the countries in the respective regions, including the ones that are not going to be part of the Sub-Program. With the latter numbers excluded, the development context will look even less advanced, making an even stronger argument for supporting energy sector transformation and scaling up RE sources, including solar PV. • However, when it comes to solar PV sectors of eligible countries, the barriers faced by their energy sectors appear remarkably similar. As described in Section 1.5, these include: (i) high transaction costs; (ii) limited ability to raise financing; (iii) lack of capacity and challenges linked to the learning curve; (iv) permitting and regulatory compliance; (v) weak transmission network and/or unreliable grid; (vi) off-taker and country risk, and others. Similarity of these challenges in combination with very low levels of solar PV markets development (country-level details are provided on page 15) make promoting a solar PV development a universal objective. • Finally, no project in a current pipeline has a 100% probability of commitment, therefore leaving uncertain a specific list of countries that could benefit from these investments. Thus, similarly to other DPSP regional programs, in-depth analysis of specific markets is not conducted at the sub-program level, but will be thoroughly done at the sub-project level. Detailed study of market circumstances as well as full project level due diligence is already being conducted for every project in the IFC's pipeline.
Comment	We would like further information on the country ownership for the proposed program. As there is not a clear focus on a limited set of countries, how is IFC ensuring country ownership for the proposed investments? In this regard, the use of standard IFC procedures for country no-objection is clearly insufficient to ensure country ownership, as country authorities are only informed at the latest stages of decision.

IFC response	• Projects entering IFC pipeline are always an outcome of a broader IFC's engagement in a country. This engagement often involves a significant scope of activities and stakeholders, and frequently includes advisory work conducted by IFC with the host country government and/or client companies. This engagement allows building an important link between the government intentions and private sector expectations and is often reflected through IFC's participation in developing enabling regulatory framework, designing auction features, defining FiT levels, setting steps to improve overall investment climate, etc. Many of the projects in the current pipeline have come about as a result of IFC's involvement in a regulatory framework development, undertaken by a host country government. As such, these investments are fully aligned with government's vision and support its implementation strategy. • Further, as indicated in the DPSP framework, the DPSP's "[] *intention is not to replace the current country-driven investment plan model but rather to provide a supplemental pathway through which funds can be more specifically channeled to private sector investments*." The framework further provides that the consistency with country priorities and country ownership is ensured through compliance with government policies and strategies as well as MDB's country assistance strategies. In compliance with the DPSP requirements, all projects in the IFC's pipeline are developed in consultation with relevant stakeholders and beneficiaries from the recipient countries. Application of the normal IFC processes and continued engagement with stakeholders will also aid in ensuring alignment of projects with country strategy. • Finally, all IFC's projects will adhere to local laws as well as IFC's Performance Standards , which cover wide-ranging country and local issues including indigenous peoples, labor and working conditions, and the assessment and management of E&S risks and impacts.
Comment	Please explain how the investments will be targeted in CTF countries, considering the investments from the CTF on solar power already planned/committed to several of the eligible countries. What is the additionality of the new program in these countries?
IFC response	• The majority of countries that are eligible under the Stage 2 of the Sub-Program, just like Honduras under the Stage 1, are SCF countries. In cases where sufficient CTF or SREP financing for solar PV projects is made available through a country investment plan (like CTF Nigeria), the DPSP resources will not be used to compete with or crowd-out funds provided through other CIF channels. • Following IFC's principles for Blended Finance operations, CTF funds will only be used if a project fully meets various eligibility criteria, including absence of market distortions and ability to deliver additionality beyond IFC's additionality.

Comments from UK

Comment	The proposal envisages potential projects in a number of countries in Latin America and in Africa. The proposal only contains rather general comments on these two regions. Conditions in each of the countries mentioned varies considerably. It would be useful to get some additional information on the specific challenges in the counties mentioned.
IFC response	• Please see above our answer to a similar question from Brazil
Comment	Egypt is one of the countries included in the MENA regional programme. Presumably the regulatory and other challenges have been dealt with as part of that programme. Please could the team elaborate on any issues that are specific to this programme that are not currently being addressed through the MENA programme, other than that this is private sector focussed. What is the additionality of this programme?
IFC response	• CTF MENA regional program focuses only on CSP technology, while CTF Egypt country Investment Plan focuses only on wind power and sustainable transport. Regulatory environment and investment climate of the solar PV sector has not yet received sufficient attention (either through CTF or any other concerted effort) to unlock commercial utility-scale investments. While viability of solar PV projects has benefited from the work being done in other RE segments (including CSP and wind), more support needs to be provided to make investments flow into the solar PV. It is likely that the efforts delivered through this Sub-Program, in turn, may have spill-over effects, supporting other RE technologies and government targets.
Comment	What is the additionality of this programme over other SREP programmes in the countries listed?
IFC Response	• This Sub-Program will seek synergies with the existing country investment plans and the country investment plans that are being developed. Many of the countries in the current indicative pipeline are neither SREP nor CTF countries; they are PPCR countries (Burkina Faso, Mozambique) or PPCR countries with SREP investment plan under development (Rwanda and Uganda). The CTF investments on the ground and early experience with advancing projects through this Sub-Program will, therefore, help inform CIF investment plans that are currently under development. • In countries with the existing CTF/SREP overlap (like Egypt), care is taken not to duplicate, but rather harmonize the efforts. The work conducted through SREP and CTF will be coordinated at the project level (as the same operational teams are involved in both SREP and CTF in a particular country) and at inter-MDBs level, with IP discussions facilitating this process.
Comment	Given this project is under the DPSP the projects under development should be explicitly demonstrational: either first demonstration of technology in country, or innovation in the financing structure that accelerates scale up. This is explored as an aim in the text, but at the same time the documentation provided also refers to Nigeria where the CTF has already financed utility scale PV through the IP. We would be grateful for clarity on this point?

IFC Response	• The above understanding is exactly correct. The Sub-Program will focus on first-mover projects in countries where regulatory framework has recently been enhanced, but not tested yet, with a view to support pilot projects that can then trigger follow-up investment flows. Solar PV in Nigeria is making significant progress with AfDB, World Bank, and IFC getting involved in a number of projects under development – with various degrees of the need for concessional support (and CTF funds provided through the country-driven Investment Plan). As such, this Sub-Program is not going to utilize the funds to support projects in Nigeria.

Comments from US

Comment	The proposal talks about Phase II as expanding the sub-program model to a larger pool of countries throughout Africa, Latin America, and the Caribbean, but only identifies African countries as ones with indicative pipelines of projects. Is this because there are no LAC countries that have projects that are as ready to plug into the pipeline as the African countries, or because the African countries are a higher priority to receive funds? If the indicative pipeline projects are all funded, will there be resources left over for other projects?
IFC response	• At the moment, there is one sub-project in the LAC region that can potentially benefit from this Sub-Program, although this sub-project is at a slightly less advanced stage than the ones in African countries (and therefore was not included in the indicate list of most advanced projects). Given the success of the Stage 1 of this IFC Sub-Program in one of the LAC countries, the Stage 2 is positioned with a greater focus on African countries, targeting a minimum amount of USD 25 million to support sub-projects in Africa. • We expect that the funding will benefit somewhere between two to four sub-projects. The amount of funds may not be enough to support all the projects in the current indicative pipeline, but the chances are high that some of the existing projects will not reach financial closure, given very difficult market conditions and significant first-mover challenges.
Comment	If resources are already close to be fully notionally allocated, then we hope that the projects will move forward quickly, so there is less uncertainty about the reality of available funds. What efforts will IFC undertake to ensure that there are minimal delays in moving the identified projects forward to approval?
IFC response	• To increase the chances of sub-projects moving quickly, IFC is keeping geographical scope of the Sub-Program broad, concurrently pursuing several projects with aggregate funding requirements exceeding the size of the Sub-Program. Eventually, only a select number of the most fast-moving high-impact projects will receive funds from this Sub-Program. Nevertheless, most of the target countries from the existing or potential pipeline have very difficult regulatory and investment environments, making it challenging to pilot a new technology within a fairly short timeframe and, as such, increasing the possibility for delays.