

# CLIMATE INVESTMENT FUNDS

SREP/SC.IS.2/3  
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Intersessional Meeting of the SREP Sub-Committee  
Nairobi, Kenya  
March 8-9, 2012

Agenda Item 3

## **CLARIFICATION OF SREP INVESTMENT CRITERIA**

**Proposed Decision by SREP Sub-Committee**

The Sub-Committee reviewed the SREP criteria set forth in the *SREP Design Document* and *SREP Programming Modalities and Operational Guidelines*, and confirms that the following should be taken into account the development of future investment plans, projects and programs....

1. A member of the Sub-Committee has requested that an agenda item be added to the agenda of this intersessional meeting regarding clarification of the SREP criteria and how they should be applied to the Nepal investment plan and other SREP investment plans and projects, particularly in relation to household level support versus productive uses. It was recognized that doing so would be useful not only for the current pilot countries but also for the six pilots on the reserve list that have been invited to develop SREP investment plans.
2. The SREP criteria are annexed to this note. It includes the “Objectives and Purpose of the SREP” and “SREP Design Principles” from the *SREP Design Document* (Annex 1), and additional criteria from the *SREP Programming Modalities and Operational Guidelines* (Annex 2).

## **Annex 1: Excerpts from the design document**

### **I. OBJECTIVES AND PURPOSE OF SREP**

1. The aim of the SCF Program for Scaling-up Renewable Energy in Low Income Countries (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.
2. 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.
3. 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.
4. 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.
5. 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.
6. SREP should also lead to economic, social and environmental co-benefits. Using renewable energy in place of conventional fuels could simultaneously address local air pollution reductions while reducing greenhouse gas emissions, contributing to climate resilience, and enhancing energy security.
7. SREP financing should be blended with co-financing from multilateral development bank (MDB) lending programs and other available funds to invest in renewable energy technologies for electricity use and thermal energy generation in low income countries.

### **II. SREP DESIGN PRINCIPLES**

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 technical assistance, together with support for policy changes to greatly increase the use of renewable energy;

- c) give priority to renewable energy investments that create „value added“ in local economies. SREP should target 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.

## Annex 2: Excerpts from the Programming Modalities and Operational Guidelines

### SCOPE OF ACTIVITIES:

1. 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

The SREP Programming Modalities and Operation Guidelines, approved by the Sub-Committee in November 2010, includes criteria SREP investments should address, 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 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.