

CLIMATE INVESTMENT FUNDS

SREP/SC.16/5
November 29, 2016

Meeting of the SREP Sub-Committee
Washington D.C.
Tuesday, December 6, 2016

Agenda 5

PROPOSAL FOR ENHANCED PRIVATE SECTOR ENGAGEMENT UNDER SREP

Proposed Decision

The SREP Sub-Committee reviewed document SREP/SC.16/5, *Proposal for Enhanced Private Sector Engagement under SREP* and notes with appreciation the work of the CIF Administrative Unit and the MDB Committee to develop the proposal, provided in response to a request from the Sub-Committee at the June 2016 meetings.

The Sub-Committee recognizes that investments in different forms of distributed generation, including off-grid renewable energy and mini-grids, are critical to improving energy access in least developed countries, and for this purpose private sector engagement opportunities should be further enhanced under SREP.

In this regard, the Sub-Committee agrees that the enclosed modifications to the dedicated SREP private sector mechanism, including the scope, types of investments, country eligibility, and pipeline development and project submission process, provides a strong framework for future SREP private sector operations.

The Sub-Committee encourages countries, in a position to do so, to provide resources to operationalize EPSP as soon as possible, recognizing that EPSP will require sufficient scale of financial resources in order to achieve the goals and mandate of the program.

1. Introduction

1. At its meeting in June 2016, the Sub-Committee of the Scaling Up Renewable Energy in Low Income Countries Program (SREP) requested the Administrative Unit of the Climate Investment Funds (CIF) to explore modification to the SREP private sector mechanisms in order to increase the mobilization of private sector investments in SREP pilot countries. These modifications were requested to be considered by the SREP Sub-Committee at its next meeting in December 2016.
2. This paper responds to that request and outlines the objectives and scope of a proposal to drive private sector investment in energy access and distributed renewable energy projects under SREP. The proposal, called the Enhanced Private Sector Program (EPSP), will supplement the country investment plans in the existing SREP countries and will take a flexible approach to allow all SREP-eligible countries to participate with a view to capturing market opportunities as they arise. The proposal will aim to unlock the potential of the private sector to invest in renewable energy markets and technologies and to demonstrate new business models and reduce risks for investors to help crowd in private investment to support scalable energy access initiatives in the world's most challenging markets.

2. Context

3. Over the past decade, the world has seen considerable progress in supplying modern energy to the world's poorest people, but there is still a long way to go. Today, 1.1 billion people worldwide still do not have access to electricity, and 2.9 billion people rely on inefficient, highly polluting sources of energy to meet their basic energy needs. The United Nations has recognized ensuring affordable, reliable, sustainable and modern energy for all as one of the Sustainable Development Goals, as energy access through low carbon sources has the unique ability to "transform lives, economies, and the planet."¹
4. In many countries, the choice of providing energy access through building new, fossil fuel-fired generation capacity versus the deployment of cleaner, renewable energy solutions is one that will have an impact for decades over the lifetime of the assets. Renewable energy will therefore play an indispensable role in locking in low carbon solutions to meet the energy access challenge. Both utility-scale renewable energy power plants and distributed generation energy technologies are all expected to help unconnected populations, especially those in the least developed countries, to achieve universal access.

¹ <http://www.un.org/sustainabledevelopment/energy>.

5. Rapidly declining low carbon technology costs combined with economic growth and increasing power demand in many developing countries are providing significant market opportunities for the private sector. However, the private sector faces numerous barriers in providing scalable energy access solutions in countries that face the most severe energy poverty. High capital costs, lack of risk-appropriate financing resources, and lack of capacity, combined with policy and regulatory barriers, can prove prohibitive for companies and private investors attempting to undertake these opportunities.
6. Multilateral development banks (MDBs) are uniquely positioned to help the private sector overcome these barriers. The ability of MDBs to work with governments and companies through technical advisory and policy support, combined with the capacity to deploy risk capital through a variety of instruments, give MDBs a strategic advantage in unlocking markets such as community-scale solar, low carbon distributed generation, mini-grids, and clean cooking technologies.
7. MDBs are expecting to increase their investment into these markets, and some MDBs have prioritized energy access interventions under their climate change action plans. MDBs recognize that increased concessional financing resources will be necessary to significantly ramp up their energy access investments, especially in more challenging markets. However, MDBs have historically faced a shortage of appropriate concessional funds, especially for private sector investments. Existing financing sources such as IDA and IDA equivalents have been unable to deploy appropriate risk capital to support private sector projects. New financing sources, such as the IDA IFC-MIGA Private Sector Window, may provide support for private sector climate projects in SREP-eligible countries, though these funds are not expected to provide the variety and magnitude of financing required to meet MDB climate lending targets on their own.
8. The SREP is well positioned to tackle these challenges. Established in 2010, SREP is the only dedicated program in the climate finance landscape that works through MDBs to deliver energy access and decentralized renewable energy investments at scale in the poorest countries in the world². The SREP aims to help countries initiate transformative change to low-carbon development pathways by adopting renewable energy solutions that are still relatively new and expensive in these countries. The SREP supports an array of solutions including investments, policy support, advisory services, and capacity building that are often necessary to break down investment barriers in program countries. MDBs

² MDB partners of the SREP are the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Bank (IDB), and World Bank Group, including International Finance Corporation (IFC).

value the SREP for its highly concessional resources, flexible financing instruments, and operational efficiency to deliver scalable energy access solutions. By focusing on expanding energy access as its primary objective, the SREP and MDBs address the daunting challenge of energy poverty linked to economic development challenges.

3. Experience and Lessons Learned of Private Sector Engagement under the SREP

9. While the SREP has aimed to promote private sector operations since its establishment, private sector investments under the SREP have been very limited to date. Of the 19 SREP investment plans that have been endorsed so far, seven did not allocate any resources to private sector operations, while those that did generally did so on a small scale. The average size of private sector operations under SREP investment plans is USD 5.5 million, less than half that of the public sector operations, and only three of these private sector projects are expected to require over USD 10 million in SREP funds. Overall, only 12 percent (USD 87 million) of the indicative funding allocations under SREP investment plans is expected to go to private sector projects and programs.
10. Challenges to allocate funds to private sector operations under the investment plan process, especially for Strategic Climate Fund (SCF) programs,³ were identified in the 2011 Climate Investment Funds: Lessons Learned from Private Sector Interventions through MDB Intermediaries report. The report noted that some recipient governments viewed private sector funding allocations as losses for public sector initiatives, creating a “zero sum game” mentality that formed biases against private sector engagement under normal programming operations. The report called for SCF funds to “explicitly allocate resources to private sector interventions.”⁴
11. In response to this recommendation, in 2012, the Private Sector Set-Asides (PSSAs) were launched under each of the SCF programs, including the SREP, to help overcome these programming and market barriers. In the course of its operation, the PSSA demonstrated that a dedicated facility can directly increase private sector investments under the SREP. Over 90 percent of SREP PSSA resources are dedicated to private sector operations, far surpassing its initial 60 percent threshold. It has been recognized, however, that the PSSA model placed many programming constraints on MDBs, which considerably reduced the program’s effectiveness for private sector engagement. For example, only the six initial

³ The SREP is one of the three targeted programs under SCF, along with the Forest Investment Program (FIP) and Pilot Program on Climate Resilience (PPCR).

⁴ https://www-cif.climateinvestmentfunds.org/sites/default/files/knowledge-documents/lessons_learned_from_private_sector_interventions_through_mdb_intermediaries_0.pdf.

SREP pilot countries were eligible for funding under the PSSA, which created a geographical restriction that reduced the potential level of engagement and interest from MDBs. The prescribed deadlines of the PSSA's calls for proposals led to additional programming constraints. As a result, not many high-quality proposals were submitted for consideration. Of the seven concepts that were originally approved under the SREP PSSA, accounting for USD 92 million in SREP funding, three have been approved by the SREP Sub-Committee, one has been dropped, and three are still under preparation.

12. The experience of developing and implementing country investment plans and PSSAs, along with the Dedicated Private Sector Programs (DPSP) of the Clean Technology Fund (CTF), has provided the CIF and MDBs with extensive insights into what works, and what does not, in effectively deploying concessional capital for innovative private sector projects in challenging markets. The adaptability and learn-by-doing approach of the CIF, one of the key facets of its business model, has enabled the development of a new SREP approach based on the lessons learned.

4. Proposal for the Enhanced Private Sector Program

4.1 Purpose and Scope

13. Drawing from six years of experience and lessons learned from the SREP as well as the CTF, it is proposed that when sufficient new resources become available, these resources be used to support an Enhanced Private Sector Program (EPSP) for the next phase of SREP programming. The EPSP will help deliver innovative renewable energy and energy access projects focusing on off-grid renewable energy and mini-grids projects, with a view to helping attract private sector financing and generating significant development results.

4.2 Country and MDB Eligibility

14. The EPSP will supplement the country investment plans currently under implementation or preparation by the 27 SREP countries. It is proposed that the country eligibility for the EPSP be broadened to include all countries meeting SREP eligibility (see Annex 1 for a list of SREP-eligible countries)⁵ in order to provide MDBs with the operational flexibility to identify and support innovative projects in dynamic market conditions.
15. As a group, the 68 SREP eligible countries face similar challenges to the 27 SREP pilot countries in terms of energy access rates (<50 percent overall), difficulty of doing business

⁵ According to the SREP Design Document, a country is eligible to receive SREP funding if (a) it is an IDA only country or a similar regional development bank equivalent; and (b) it is engaged in an active MDB country program (i.e., where an MDB has a lending program and/or on-going policy dialogue with the country).

(high), and renewable energy deployments (<2 MW total in most countries). By opening to all SREP eligible countries, the EPSP will provide more flexibility to the MDBs to capture potential opportunities in a wide range of markets and help demonstrate new business models and technologies as they emerge.

16. EPSP resources will be made available to the private sector arms of the MDBs as well as the public sector arms of the MDBs for projects that directly support identified private sector projects or clients and address barriers and mitigate risks for private sector investments. Funding through the public sector arms will be capped at approximately one-third of the funding available for EPSP programming.

4.3 Pipeline Development and Project Submission

17. Once the proposed EPSP is endorsed by the SREP Sub-Committee and once funding becomes available, the CIF Administrative Unit will work with the MDBs to identify and propose private sector opportunities for funding under the target investment areas described in Paragraph 25. Indicative programs in the pipeline should be aligned with the country SREP investment plans if applicable or priorities identified in the country's intended nationally determined contributions (INDCs) or other national development and renewable energy strategies.
18. Once MDBs have developed an indicative programmatic pipeline that aligns with EPSP themes, the CIF Administrative Unit will submit the indicative pipeline with a corresponding program document, including expected outcomes to be achieved, to the SREP Sub-Committee for review and endorsement.
19. Following the endorsement of the EPSP pipeline, the MDBs will work to develop sub-programs and projects. These will then be submitted to the SREP Sub-Committee for funding approval on a rolling basis, in line with standard CIF procedures for approval by email. To ensure that funds are expediently and effectively deployed under EPSP, projects will be subject to the SREP Pipeline Management and Cancellation Policy.

4.4 Maximizing Synergies

20. The EPSP will seek to build synergies and share duties with other global, regional, and bilateral initiatives that aim to address energy access challenges across the SREP-eligible countries. For example, Sustainable Energy for All (SE4ALL) has assisted its partner countries in engaging in Rapid Assessment and Gap Analysis of specific national contexts and in developing action agendas and investment prospectuses. The International Renewable Energy Agency (IRENA) has also supported its member countries to undertake Renewables Readiness Assessments (RRAs). Other bilateral and multilateral initiatives,

such as Power Africa, Energy Africa, and Energizing Development (EnDev), also target energy access through partnership with the governments, private sector, and other stakeholders in SREP-eligible countries. The EPSP will avoid duplication of these efforts and will instead complement this existing work by helping MDBs deploy climate finance to move some of these bilateral and multilateral initiatives from planning to execution. The EPSP is envisioned to deploy early stage, risk-appropriate instruments to help test new business models and technologies that can then crowd in additional sources of climate finance.

4.5 Country Engagement

21. To ensure alignment of the projects/sub-programs with country, MDB, and SREP strategies, MDBs will develop projects and programs under the EPSP in consultation with relevant public and private sector stakeholders and beneficiaries from recipient countries. Programs will align with participating MDBs' country partnership strategies and appropriate sector strategies, which are dynamically updated through regular consultation and dialogue with the recipient government and other stakeholders.
22. Once the EPSP is endorsed by the SREP Sub-Committee and sufficient funding becomes available for programming, the CIF Administrative Unit will inform the focal point of each SREP-eligible country and encourage the focal points to work with the MDBs to develop projects for consideration under the EPSP in the country.

4.6 Types of Investments under EPSP

23. The EPSP will aim to mobilize private sector participation in the development of renewable energy markets and energy access with emphasis on decentralized renewable energy solutions. All projects must demonstrate the ability to significantly improve energy access in target markets and/or demonstrate potential for replication at scale.
24. EPSP will focus on supporting "game-changing" projects that possess a significant potential for impact, though will unlikely materialize without support from concessional finance. It is expected that solar energy technology will be featured prominently, although all new renewable energy technologies as defined by the SREP Design Document are eligible.⁶
25. Three initial target investment areas have been identified as having potential to generate significant development and market impacts. Many of these sectors have been identified

⁶ https://www-cif.climateinvestmentfunds.org/sites/default/files/SREP_design_Document.pdf.

as investment priorities for MDBs, who have likewise indicated that they can quickly develop a robust pipeline of high-quality projects in the near term upon EPSP capitalization:

i. Off-Grid Renewable Energy

- Scale-up off-grid solar home systems, including new storage and mobile payment technologies
- Scale-up and deploy affordable, high-impact off-grid appliances for both household and productive uses
- Produce and disseminate clean, efficient lighting and clean cooking technologies

ii. Mini-grids

- Support innovative business models and technologies that deliver power to local communities through mini-grids
- Increase capacity and provide concessional finance to local commercial banks for on-lending to mini-grid projects

iii. Grid-connected renewable energy

- Install distributed generation rooftop solar systems for residential, commercial, and industrial customers
- Remove financing barriers for distributed generation energy service companies
- Support innovative finance models for private sector grid-connected renewable energy power plants

26. In keeping with the mandate of the CIF to take on a high-risk appetite through a wide variety of risk-appropriate financial instruments, investments under EPSP will be eligible for loans, equity, guarantees, and local currency financing. Depending on the type of new resources available, grants may be made available under the EPSP, but only for technical assistance and advisory services to create and strengthen the enabling environments for the private sector. Regardless of grant availability, grants will not be made available for project level investments. Consistent with SREP financial modalities, the principles of minimum concessionality, avoiding market distortion and crowding out, leverage, and financial sustainability will be applied under the EPSP.

4.7 Funding Scenarios

27. The experience and lessons learned from SREP private sector engagement, particularly the PSSA, suggest that effective programming requires a considerable amount of resources in order to mobilize interest both from countries and MDBs, and to achieve desired objectives and outcomes. Two funding scenarios have therefore been considered and are

elaborated.

28. Minimum Investment Scenario (approximately USD 100 million). If new resources in the range of USD 100 million become available to the SREP, a minimum investment scenario may be considered to support five to eight private investment programs. Priority will be given to projects that are in an advanced stage of development and that demonstrate the potential to provide energy access to a significant number of beneficiaries, along with other specific expected outcomes and impacts.
29. Specific expected outcomes and impacts will be evaluated once MDBs and the CIF Administrative Unit further solidify a program pipeline, but will likely include a mix of qualitative and quantitative outcomes, including private sector financing leveraged, jobs created, business models demonstrated, and institutional barriers to private sector investments addressed.
30. Enhanced Investment Scenario (USD 200 million or above). A more desirable level of funding for the EPSP is USD 200 million or above, which will provide greater opportunities for MDBs to build a robust pipeline of projects under the EPSP. This scenario will allow for more demonstration effects and transformational change across sectors and markets to achieve greater impact.
31. Under the Enhanced Investment Scenario, it is expected that about 10 to 15 private sector investment programs will be supported with scaled-up investments for game-changing, transformational impact. Like the Minimum Investment Scenario, projects will be required to be in an advanced stage of development and will demonstrate the potential to expand energy access to a significant number of beneficiaries, along with other specific expected outcomes and impacts. Additionally, the Enhanced Impact Scenario will feature a more robust and diverse portfolio than that of the Minimum Investment Scenario, and will increase the learning and knowledge opportunities from the fund. It will likely lead to a disproportionately higher amount of qualitative direct outcomes, such as improved technical capacity and lessons learned.

5. Annex 1. List of SREP-Eligible Countries

Africa (38)	East Asia, South Asia, and Pacific (18)	Europe, Central Asia, and Middle East (7)	Latin America and Caribbean (5)
Benin Burkina Faso Burundi Cameroon Central African Republic Chad Comoros Congo, Democratic Republic of Congo, Republic of Cote d'Ivoire Djibouti Eritrea Ethiopia Gambia Ghana Guinea Guinea-Bissau Kenya Lesotho Liberia Madagascar Malawi Mali Mauritania Mozambique Niger Rwanda Sao Tome and Principe Senegal Sierra Leone Somalia South Sudan Sudan Tanzania Togo Uganda Zambia Zimbabwe	Afghanistan Bangladesh Bhutan Cambodia Kiribati Lao People's Democratic Republic Maldives Mongolia Marshall Islands Micronesia, Federated States Myanmar Nepal Nauru Samoa Solomon Islands Tonga Tuvalu Vanuatu	Armenia Georgia Kosovo Kyrgyz Republic Moldova Tajikistan Yemen	Bolivia Guyana Haiti Honduras Nicaragua