

CLIMATE INVESTMENT FUNDS

SREP/SC.16/5
November 29, 2016

Meeting of the SREP Sub-Committee
Washington, DC
Wednesday, December 6, 2016

Agenda 5

**PROPOSAL FOR ENHANCED PRIVATE SECTOR ENGAGEMENT UNDER THE SREP
(SUMMARY)**

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 SREP Sub-Committee requested the CIF Administrative Unit to explore modification to the SREP private sector mechanisms in order to increase the mobilization of private sector investments in SREP pilot countries. This paper responds to that request and outlines the objectives and scope of a proposal, called the Enhanced Private Sector Program (EPSP), to drive private sector investment in energy access and distributed renewable energy under SREP. EPSP will supplement country investment plans in the existing SREP countries and will take a flexible approach to allow all SREP-eligible countries to participate in order to capture market opportunities as they arise.

2. Context

2. Rapidly declining technology costs combined with economic growth and increasing power demand in many developing countries are providing significant market opportunities for the private sector to help meet energy access challenges with renewable energy solutions. Multilateral development banks (MDBs) are uniquely positioned to help the private sector overcome barriers to investment in these sectors, though existing and expected sources of concessional funding are not expected to provide the variety and magnitude of financing required by MDBs to meet their private sector climate investment targets. SREP is well positioned to help MDBs tackle this challenge through its highly concessional resources, flexible financing instruments, and operational efficiency.

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

3. Private sector investments under the SREP have been limited to date, and in 2012, the Private Sector Set-Asides (PSSAs) were launched to help address this challenge. The PSSAs demonstrated that a dedicated facility can increase private sector investments under SREP, though it was recognized that the PSSA model placed many programming constraints on MDBs which considerably reduced the program's effectiveness for private sector engagement.
4. The experience of developing and implementing the PSSAs, along with country investment plans and the CTF Dedicated Private Sector Programs (DPSP), has provided the CIF and MDBs with extensive insights into what works, and what doesn't, to effectively deploy concessional capital for innovative private sector projects in challenging markets. The adaptability and learn-by-doing approach of the CIF has enabled the development of a new SREP approach based on lessons learned.

4. Proposal for the Enhanced Private Sector Program

4.1 Purpose and Scope

5. 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 with a view to helping attract private sector financing that will generate significant development results.

4.2 Country and MDB Eligibility

6. The EPSP will supplement the country investment plans currently under implementation or preparation. It is proposed that the country eligibility for the EPSP be broadened to include all 68 countries that meet SREP eligibility in order to provide MDBs with the operational flexibility to capture potential opportunities in a wide range of markets and help demonstrate new business models and technologies as they emerge. EPSP funding will support private sector projects or clients, or will likewise address barriers and mitigate risks for private sector investments.

4.3 Pipeline Development and Project Submission

7. The CIF AU will work with the MDBs to identify and propose private sector opportunities for funding under the target investment areas. The CIF AU will submit the indicative pipeline with a corresponding program document to the SREP Sub-Committee for review and then endorsement, at which point the MDBs will work to develop sub-programs and projects. These will be submitted for funding approval on a rolling basis, in line with standard CIF procedures. Projects will be subject to the SREP Pipeline Management and Cancellation Policy.

4.4 Maximizing Synergies

8. The EPSP will seek to build synergies, share duties, and avoid duplication with other global, regional, and bilateral initiatives such as SE4ALL and IRENA that aim to address energy access challenges across the SREP-eligible countries.

4.5 Country Engagement

9. 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.

4.6 Types of Investments under EPSP

10. Three initial target investment areas have been identified in which MDBs have 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

Investments will be eligible for loans, equity, guarantees, and local currency financing. Depending on resource availability, grants may be made available under the EPSP, but only for advisory services.

4.7 Funding Scenarios

Effective programming requires significant resources to mobilize interest from countries and MDBs, and to achieve desired objectives. Two funding scenarios are considered:

- i. **Minimum Investment Scenario** (approximately USD 100 million). This scenario can support five to eight private investment programs that are in an advanced stage of development and that demonstrate the potential to provide energy access to a significant number of beneficiaries
- ii. **Enhanced Investment Scenario** (USD 200 million or above). Will provide greater opportunities for MDBs to build a robust pipeline of 10 to 15 private sector investment programs and will allow for more demonstration effects and transformational change across sectors and markets.