

CLIMATE INVESTMENT FUNDS

SREP/SC.2/6
March 14, 2010

Meeting of the SREP Sub-Committee
Manila, Philippines
March 17, 2010

CRITERIA FOR SELECTING COUNTRY AND REGIONAL PILOTS UNDER THE PROGRAM FOR SCALING UP RENEWABLE ENERGY IN LOW INCOME COUNTRIES

Note:

On February 24, 2010, the CIF Administrative Unit sent to the Sub-Committee Members for review and approval by mail a revised document, *Criteria for Selecting Country and Regional Programs under SREP*. The document was revised to take into account the discussion at the SREP Sub-Committee meeting on February 3, 2010.

The date for approval of the document by mail was March 10, 2010. While no objections to the revised document were received, Sub-Committee Members from Armenia, Netherlands, Switzerland and the United States submitted comments for further revisions. Transparency International, which is an observer to the SREP Sub-Committee, also submitted proposals for revision. Copies of the comments received are attached as annexes to this document.

The CIF Administrative Unit has included in the attached text the proposals for further revisions to the document. The proposals are included within brackets, with footnotes recalling the Sub-Committee Member(s) or observer that has proposed the text.

The Sub-Committee is invited to review the proposed revisions with a view to agreeing on a final document.

I. BACKGROUND

1. There is increasing consensus that addressing climate change is central to the sustainable development, economic growth and poverty reduction agenda. Increasing the resilience to climate change needs to combine both mitigation and adaptation measures. A delay in reducing greenhouse gas (GHG) emissions would significantly constrain opportunities to achieve lower stabilization levels and is likely to increase the risk of more severe climate change impacts. Climate change impacts have the potential to reverse hard-earned development gains and progress towards achieving the Millennium Development Goals.

2. [Low income countries face a dual challenge of increasing the availability of electricity and other commercial fuels needed for economic development and increasing access to the 1.5 billion people who have no access to electricity and are dependent almost wholly on biomass fuels for energy services. [The majority of the low income countries and populations are in Sub-Saharan Africa and Asia, and electricity access is about 25 percent in Africa and 52 percent in Asia. In Latin America low income countries have access rates typically of around 60 percent. In a vast majority of these countries fossil energy use is highest in the residential and commercial sectors.]]¹

3. The need to ramp up modern energy use in low income countries, coupled with the availability of exceptional renewable energy resources, provide a fertile opportunity to help countries develop a renewable energy base that will allow them to leap-frog into a new pattern of energy generation and use. Increased financing is vital to catalyze such a transformative use of renewable energy. Such resources are needed to overcome the challenges to achieving this potential, including:

- a) weak enabling environments: few low income countries have in place an enabling environment necessary to promote renewable energy. It is necessary, therefore, to create an enabling environment by establishing the necessary policy, legal, regulatory and economic frameworks, reduce barriers to investment, improve access to knowledge and financing, and strengthen institutional capacities [and governance for effective consultation, transparency, and accountability]². These steps help reduce risks and transactions costs, and thereby encourage renewable energy investment.
- b) lack of access to capital: there is a funding gap for renewable energy as commercial lenders perceive such investments as too risky. The capital costs of renewable energy investments further exacerbates the problem. When there are capital constraints, the tendency is to favor projects that may have lower upfront capital intensity.
- c) need to engage public and private sector: the private sector is a critical partner, and it can be most effective in scaling up renewable energy investments if an enabling environment exists. This underscores the important role of the public sector in setting the policy and

¹ The Member from Armenia requested that this paragraph be deleted or rewritten to include a reference to all six World Bank regions. The Member from the United States requested that the first sentence be maintained if the rest is to be deleted.

² Proposal from Transparency International.

regulatory framework for private sector interventions and contributing to investments in the early stages of a transformative program.

- d) lack of affordability: even with increased access to investment resources, many potential customers may have limited financial resources to make energy purchases at a scale needed to make renewable energy businesses financially viable. Long-term commercial viability is a prerequisite for sustainable and affordable energy services.

II. OBJECTIVES AND PURPOSE OF SREP

4. The aim of the Strategic Climate Fund's 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. SREP financing should be blended with co-financing from multilateral development bank (MDB) lending programs and other national and international, public and private funding to invest in renewable energy technologies for electricity use and thermal energy generation in low income countries.

III. SREP DESIGN PRINCIPLES

11. 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;

[(h.1) Ensure that decisions taken for the approval of renewable energy projects involve a transparent selection process for the investments, technologies, technical assistance and policy change support, which are selected, including full disclosure of the rationale for the choice and publication of the measured impacts of the selected projects.]³

[(h.2) Ensure further that the SREP, its decision-making bodies, and funding recipients maintain appropriate, internationally recognized standards of accountability and

³ Proposal from Transparency International.

transparency in the function of their respective duties and functions, in accordance with the objectives and purposes of the SREP.]⁴

- (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.

IV. SCOPE OF SREP PROGRAMS

12. SREP should provide financing for renewable energy generation and use of energy using proven “new” renewable energy technologies. For purposes of SREP, new renewable energy technologies include solar, wind, bioenergy, and geothermal, as well as hydropower with capacities normally not to exceed 10 MW per facility.

13. SREP should support complementary technical assistance as this is essential for transformative and enduring change and country engagement and ownership. This could include support for planning and pre-investment studies, policy development, legal and regulatory reform, business development and capacity building (including for knowledge management and monitoring and evaluation) as an integral and complementary part of renewable energy investment operations.

V. EXPERT GROUP FOR THE SELECTION OF PILOT COUNTRIES

14. An Expert Group is to be appointed by the SREP Sub-Committee to make recommendations on the selection of country or regional pilots to be financed by the SREP (see *Criteria for Selecting Expert Group Members under SREP*). This document proposes criteria and additional considerations to guide the Expert Group in advising on the selection of country or regional pilots.

VI. NUMBER OF PILOTS

15. The SREP Sub-Committee is to determine the number of country or regional pilots to be financed through the SREP, taking into account, among other things, the resources available for the program and the objective of providing scaled-up resources through the SREP pilots. In determining the number of country and regional pilots, it is important to ensure that the scale of investment for each pilot is sufficient to meet the objectives of the program. Based on the current level of pledged funding (USD 292 million), the SREP Sub-Committee has agreed that there should initially be up to six pilots.

⁴ Proposal from Transparency International.

16. The Sub-Committee is invited to keep under review the funding available to the program and to consider, if the funding increases, whether to include additional pilots.

17. The Expert Group is invited to propose a list of up to six pilots to the Sub-Committee together with a list of up to three additional countries to be considered should funds become available to finance additional pilots or should some of the selected pilots prove not to be feasible. [The Expert Group is invited to inform the Sub-Committee of its views on the number of pilots for further consideration by the Sub-Committee, taking into consideration: a) estimated leverage factor, and b) absorptive capacity of the countries].⁵

VII. CRITERIA

18. In reaching its recommendations on the selection of country and regional pilots, the Sub-Committee should consider the following criteria. The criteria should be considered from two perspectives: (i) a country's willingness to meet the criteria and to achieve the objectives of the SREP, and (ii) a country's potential and capacity to implement a SREP program. This criteria includes:

- a) willingness to undertake a program for renewable energy development that could eventually move the country towards a low carbon development path in the energy sector [and reduce greenhouse gas emissions]⁶. Conditions needed for such transformation should include:
 - i) the existence of, or a willingness to, adopt, within an appropriate time frame, supportive regulatory structures and institutions (including agencies to promote/utilize renewable energy). This could include policies and regulations promoting renewable energy, such as feed-in tariffs, tax incentives, subsidies, concessional financing or renewable portfolio standards. [Such policies and regulations should be formulated through transparent and accountable Municipal processes and should safeguard against governance and corruption risks, as necessary. The governance of implementing institutions needs to ensure anticorruption, transparency, accountability and adherence to public oversight.]⁷
 - ii) an enabling regulatory environment that promotes business, such as that contained in the *Doing Business Report*. For the renewable energy sector, this can include policies that support private sector participation, public-private partnerships, and availability of financing for renewable energy technologies. This can also include availability, or willingness to develop, local capacity along the renewable energy supply chain, including manufacturing, training, and operations and maintenance. [Moreover, the willingness to ensure that corruption safeguards are in place, and that the regulatory environment includes regulatory

⁵ Proposal by Member from Switzerland.

⁶ Proposal from Transparency International.

⁷ Proposal from Transparency International.

bodies operating with full transparency and accountability and being subject to public oversight and inspection.]⁸

iii) sector-wide energy development strategies that are open to integrating renewable energy into energy access and supply enhancement programs or targets for large-scale renewable energy deployment. Countries can be assessed on national and local strategies and targets for electrification, and current or projected share of renewables in the energy portfolio [and the overall contribution to mitigating greenhouse gas emissions.]⁹

iv) good governance within the sector. An assessment of sector governance might include commercial performance of relevant institutions, pricing and tariff practices, and competitive procurement of goods and services [the transparency of these practices and the degree to which they are subject to public oversight].

- b) potential capacity for implementation, including a business friendly environment and sufficient institutional capacity. This can include a track record of renewable energy projects completed or initiated with participation of private sector, previous experience implementing and using renewable energy technologies, capacity for operating and maintaining renewable energy systems [, capacity to safeguard against corruption risks and ensure effective and efficient project management]¹⁰. In specific cases, the existence of a track record may not be a strict criterion and a willingness to advance in the area of renewable energy could be sufficient. The government's ability to effectively absorb, [disperse and account for]¹¹ additional funds should also be considered.
- c) regional balance as well as balance among diverse contexts for scaling up renewable energy, such as urbanization, industrialization, dispersed rural populations and stage of renewable energy development. With respect to regional balance, it is not expected that each of the World Bank regions would be represented in the recommended list of countries, but the Expert Group is requested to recommend countries from at least [three] [two]¹² different regions.
- d) natural conditions for developing renewable energy.

19. Priority consideration should be given to countries that have submitted an expression of interest to be considered as a pilot. The Expert Group should also give preference, [if other considerations are equal],¹³ to least developed countries¹⁴. While regional programs are not seen

⁸ Proposal from Transparency International.

⁹ Proposal from Transparency International.

¹⁰ Proposal from Transparency International.

¹¹ Proposal from Transparency International.

¹² The Member from the Netherlands has proposed that the recommendation be to have at least two different regions represented (instead of three).

¹³ The Member from the Netherlands proposed to delete this phrase.

¹⁴ Least developed countries may include fragile states.

as a priority, it is agreed that there should be flexibility for the Expert Group to recommend a regional grouping of a small number of states if a strong case can be made from an operational perspective.¹⁵

VIII. REPORT OF THE EXPERT GROUP

20. In presenting its recommendations to the SREP Sub-Committee, the Expert Group is requested to elaborate upon how it has taken the above criteria and other considerations into account in preparing its recommendations for country or regional pilots.

¹⁵ A regional or sub-regional program should be considered as one pilot under the SREP.

ANNEX 1- COUNTRY ELIGIBILITY

1. A country eligible for participating in SREP programs should be:

- a) a low income country eligible for MDB concessional financing (i.e., IDA¹⁶ or a regional development bank's equivalent); and,
- b) engaged in an active MDB country program. For this purpose, an "active" program means where an MDB has a lending program and/or on-going policy dialogue with the country.

2. It is expected that a country receiving financing from SREP will not receive financing from the Clean Technology Fund.

List of IDA only countries and/or similar RDB equivalents

- Afghanistan
- Angola
- Armenia
- Bangladesh
- Benin
- Bhutan
- Bolivia, Plurinational State of
- Burkina Faso
- Burundi
- Cambodia
- Cameroon
- Central African Republic
- Chad
- Comoros
- Congo, Democratic Republic of (formerly Zaire)
- Congo, Republic of
- Cote D'Ivoire
- Djibouti
- Ethiopia
- Eritrea
- Gambia
- Georgia
- Ghana
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Honduras
- Kenya
- Kiribati
- Kosovo
- Kyrgyz Republic
- Laos, PDR
- Lesotho
- Liberia
- Madagascar
- Malawi
- Maldives
- Mali
- Mauritania
- Moldova
- Mongolia
- Mozambique
- Nauru
- Nepal
- Nicaragua
- Niger
- Nigeria
- Rwanda
- Samoa
- Sao Tome and Principe
- Senegal
- Solomon Islands
- Sierra Leone
- Sri Lanka
- Tajikistan
- Timor-Leste
- Tanzania, United Republic of
- Togo
- Tonga
- Tuvalu
- Uganda
- Uzbekistan
- Vanuatu
- Yemen, Republic of
- Zambia

¹⁶ SREP should be limited to IDA only countries and/or similar RDB equivalents.

ANNEX 2: COMMENTS FROM SUB-COMMITTEE MEMBERS

Armenia:

Dear Patricia,

I fully appreciate the extent of work put into conducting the "Criteria for Selecting Country and Regional Pilots under the Program for Scaling Up Renewable Energy in Low Income Countries" document. Indeed, thorough, it appropriately mirrors the February 3, 2010 SREP sub-committee meeting held regarding its revision.

It seems important to me, both as ECA representative (Armenia), and a member of SREP sub committee, to bring up to your attention a minor detail in the document mentioned above.

Certain points read in succession (specifically Background paragraph 2 and the newly proposed VII Criteria 18, c)- although do not limit the upcoming discussions of the next SREP subcommittee meeting, they may anchor the direction of the expert group recommendations considering the pilot countries.

In other words, although the Background paragraph 2 gives mere examples of regions to be considered, when coupled with the point VII Criteria 18.c., these examples become slightly suggestive.

Hence, a matter perfectly appropriate for an oral dialogue- becomes involuntarily a biased platform in a shape of a written documentation.

This being said, I acknowledge fully my subjective role in representing the ECA region recipient countries, nevertheless, in this case, I speak in a broader sense as a member of SREP Sub Committee where all six regions are to be considered.

Hence, I humbly suggest, that the Background paragraph 2 either be removed completely, or include reference to all of those six regions.

Thank you in advance,
Sincerely,

Adrine

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Advisor to the Executive Director
(Armenia)

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Netherlands:

Dear Patricia,

Thank you very much for the SREP documents. Only with regard to the selection of countries I would like to draw your attention to the following:

*) In para 18c it is mentioned that countries from at least 3 regions will be recommended. According to my notes it was stated that in this first phase countries of at least two regions would be selected. I would propose to change the text accordingly. When more funds will be available another region can be added.

In para 19 it is stated : "The Expert Group should also give preference, if other considerations are equal, to least developed countries".

During the meeting it was discussed that these conditions are not always equal in least developed countries but that the willingness of governments to adopt a strategy to promote renewable energy programmes should be crucial. This is clearly stated in para 18. Therefore I propose to skip the sentence : if other conditions are equal .

These were my comments. Thank you very much .
kind regards,

Tineke Roholl
Head Climate and Energy Division
Ministry of Foreign Affairs
The Netherlands

Switzerland:

Dear All,

Switzerland would like to the opportunity to comment on the criteria for selecting country and regional pilots.

We would like to request one modification to the decision mail, in accordance with our intervention made during the meeting of the sub-committee, which has not been reflected in the decision, which is the following:

The number of pilot countries shall be examined by the expert group and the MDBs and a position submitted to the SREP sub-committee for consideration according to the following two elements to take into consideration: a) estimated leverage factor; b) absorptive capacity of the countries.

In particular, we would like to highlight that the leverage, i.e. the total amount available related to the SREP has not been taken into account as no information has been provided so far.

We would be grateful to include this aspect in the final revision of the decision.

Kind regards,
Brigitte Cuendet

United States:

Colleagues: We are generally very pleased with the paper on the country selection criteria. A few comments:

*Recommend we consider moving footnote 1 from paragraph 18 to paragraph 19 as it could be easily misread as a mandate to choose one regional pilot.

*With regard to the regional balance, my recollection is that we agreed to "at least THREE regions."

*We appreciate Adrine's point regarding paragraph 2, but request that if it is rewritten at least the first sentence remain.

*With regard to Lisa's helpful edits, we recommend that they generally be grouped into two new paragraphs -- one under para (11) or para (11)(i), and one under para (18) or para (18)(a)(iv). Recommend we also consider whether the edit to para (11)(b) adds clarity.

*I am having a bit of a hard time fully understanding Brigitte's recommendation regarding leverage. Brigitte, perhaps you could offer a redline?

Regards,
Dan

Daniel Riley
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ANNEX 3: COMMENTS FROM OBSERVERS

Transparency International:

Dear Ms. Bliss-Guest,

Transparency International commends the considered and appropriate terms and conditions applied in the SREP Revised Draft "Criteria for Selecting Expert Group Members under the Program for Scaling Up Renewable Energy in Low Income Countries."

With due respect and appreciation for the development of the Draft Criteria, we would like to suggest the following amendments which we hope contribute to the current formulations. The suggested amendments are written in red and underlined in the below text and submitted as the same in the attached document, for your reference.

- (1) Para 3(a) under Section I: Background may be amended to refer to the strengthening of institutional governance. The suggest amendment would read: a) weak enabling environments: few low income countries have in place an enabling environment necessary to promote renewable energy. It is necessary, therefore, to create an enabling environment by establishing the necessary policy, legal, regulatory and economic frameworks, reduce barriers to investment, improve access to knowledge and financing, and strengthen institutional capacities and governance for effective consultation, transparency, and accountability.

- (2) Under Section III: SREP Design Principles, the following two principles are proposed to be added between subparagraphs 11(h) and 11(i)

11(h.1) Ensure that decisions taken for the approval of renewable energy projects involve a transparent selection process for the investments, technologies, technical assistance and policy change support, which are selected, including full disclosure of the rationale for the choice and publication of the measured impacts of the selected projects.

11(h.2) Ensure further that the SREP, its decision-making bodies, and funding recipients maintain appropriate, internationally recognized standards of accountability and transparency in the function of their respective duties and functions, in accordance with the objectives and purposes of the SREP.

- (3) Under Section VII CRITERIA, we suggest specific amendments to subparagraphs 18(a), 18(a)(i), 18(a)(ii), 18(a)(iii), 18(a)(iv) and 18 (b). include reference to
- a) willingness to undertake a program for renewable energy development that could eventually move the country towards a low carbon development path in the energy sector and reduce greenhouse gas emissions. Conditions needed for such transformation should include:
- i) the existence of, or a willingness to, adopt, within an appropriate time frame, supportive regulatory structures and institutions (including agencies to promote/utilize renewable energy). This could include policies and regulations promoting renewable energy, such as feed-in tariffs, tax incentives, subsidies, concessional financing or renewable portfolio standards. Such policies and regulations should be formulated through transparent and accountable Municipal processes and should safeguard against governance and corruption risks, as necessary. The governance of implementing institutions needs to ensure anticorruption, transparency, accountability and adherence to public oversight.
- ii) an enabling regulatory environment that promotes business, such as that contained in the *Doing Business Report*. For the renewable energy sector, this can include policies that support private sector participation, public-private partnerships, and availability of financing for renewable energy technologies. This can also include availability, or willingness to develop, local capacity along the renewable energy supply chain, including manufacturing, training, and operations and maintenance. Moreover, the willingness to ensure that corruption safeguards are in place, and that the regulatory environment includes regulatory bodies operating with full transparency and accountability and being subject to public oversight and inspection.
- iii) sector-wide energy development strategies that are open to integrating renewable energy into energy access and supply enhancement programs or targets for large-scale renewable energy deployment. Countries can be assessed on national and local strategies and targets for electrification, current or projected

share of renewables in the energy portfolio, and the overall contribution to mitigating greenhouse gas emissions.

iv) good governance within the sector. An assessment of sector governance might include commercial performance of relevant institutions, pricing and tariff practices, competitive procurement of goods and services, the transparency of these practices and the degree to which they are subject to public oversight.

- b) potential capacity for implementation, including a business friendly environment and sufficient institutional capacity. This can include a track record of renewable energy projects completed or initiated with participation of private sector, previous experience implementing and using renewable energy technologies, capacity for operating and maintaining renewable energy systems, capacity to safeguard against corruption risks and ensure effective and efficient project management. In specific cases, the existence of a track record may not be a strict criterion and a willingness to advance in the area of renewable energy could be sufficient. The government's ability to effectively absorb, disperse and account for additional funds should also be considered.

We hope that our suggestions are helpful/useful and that they are taken into consideration in the follow-up review of the present Draft Criteria document.

Thank you again for the opportunity to comment and provide input.

We again commend your important work in this and other areas of climate finance.

Sincerely,

Lisa Elges

Programme Manager
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