

CLIMATE INVESTMENT FUNDS

March 26, 2010

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

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.

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. 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 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;
- (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.

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.

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. 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.
 - 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.
 - 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.
 - 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 and accountability 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. 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 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 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, to least developed countries¹. While regional programs are not seen 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.²

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. The Expert Group report should include, inter alia, information on:

- a) methodology and analysis leading to the group's recommendations regarding proposed country and regional pilots;
- b) an assessment of key issues and challenges for the recommended pilots; and
- c) conclusions and recommended list of country or regional pilots that meet the agreed number, criteria and other considerations agreed by the Sub-Committee.

¹Least developed countries may include fragile states.

² 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., IDA³ 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

³ SREP should be limited to IDA only countries and/or similar RDB equivalents.