
Sixth Session of the Assembly of the International Solar Alliance
31 October 2023
New Delhi, Republic of India

1 October 2023

Agenda Item 16

Proposal for restructuring of the ISA Viability Gap Funding Mechanism

Summary

This working document contains the revised Viability Gap Funding (VGF) Mechanism proposed by the ISA Secretariat.

Proposal for restructuring of the ISA Viability Gap Funding Mechanism

A. Background

1. Viability Gap Funding (VGF) Mechanism

- 1.1. The Fourth Session of the ISA Assembly approved a VGF mechanism proposed by the ISA Secretariat in its working document **ISA/SC.05/WD.10.Rev01**.
- 1.2. The VGF mechanism aims to support the ISA Member Countries that are Least Developing Countries (LDCs) and Small Island Developing States (SIDS) in creating a bankable project pipeline by reducing the finance costs.
- 1.3. The top 15 countries facing the most significant deficits in electricity access accounted for approximately 67% of the global population without electricity access in 2021. Remarkably, 14 of these top 15 nations were situated in Sub-Saharan Africa and out of the 15 countries with the highest electricity access deficits, 13 were classified as LDCs.
- 1.4. Many LDCs and SIDS rely heavily on imported fossil fuels, which can lead to energy security vulnerabilities and price volatility. With appropriate VGF support, solar energy projects can enhance energy security by utilising locally available and abundant solar resources, reducing dependence on fuel imports, and increasing energy self-sufficiency.
- 1.5. Under an earlier scheme approved by the Assembly, the ISA had provided 100% grant support to set up demonstration projects. 27 LDC and SIDS Member Countries have availed of this VGF. The VGF Mechanism was approved to provide support through part funding of the projects in the form of VGF.
- 1.6. Under the VGF Mechanism, it was approved that the ISA would collaborate with potential funding agency(ies) and provide a VGF of USD 150,000 or 10% of the project cost (whichever is lower) per country per project. The total VGF outlay approved was USD 1.5 Million, covering 10 Countries. Subsequently, a Technical Advisory Panel (TAP) was established at the ISA Secretariat to review and evaluate the concept proposals from funding agencies and Member Countries.
- 1.7. Preliminary discussions with the Member Countries and funding agencies (EXIM Bank of India, African Development Bank, Rwanda Development Bank, Agence Française de Développement, European Investment Bank and others) were held to explore the possibilities of utilising the VGF and assistance in developing the guidelines for the ISA VGF Mechanism.
- 1.8. After the circulation of the VGF Mechanism guidelines to the LDCs and SIDS, the ISA Secretariat did not receive any proposals. Further consultations revealed that some Member Countries and funding agencies opined that the maximum available VGF is insufficient for smaller projects.
- 1.9. Considering the feedback received from the Member Countries and funding agencies, the ISA Standing Committee, in its Eighth Meeting held in June 2023, directed the ISA Secretariat to restructure the VGF Mechanism and submit the revised design of the VGF Mechanism for the consideration of the Standing Committee during its next Meeting (Ninth Meeting).

B. Consultations with countries, funding agencies and updates on the VGF Mechanism

1. Post the Eighth Meeting of the ISA Standing Committee, the ISA Secretariat prepared and circulated a questionnaire to get suggestions from the countries for revising the VGF Mechanism.
2. Region-wise consultation workshops were also held from 31 July to 2 August 2023 to allow the countries to seek clarification.
3. Consultation was also held with ADB to understand the perspective of funding agencies.
4. During these consultations, the following points have emerged:
 - 4.1. The Government or Government institutions own many of the solar projects set up in LDCs and SIDS. Typically, such solar projects are funded through the Government Budget with or without support from domestic/ international financial organisations.
 - 4.2. In some of the LDCs and SIDS, the projects are set up by private developers based on the policies adopted by these countries. For example, the Republic of Rwanda has made a comprehensive solar Mini-Grid policy wherein the Government of Rwanda would give 70% of the project cost as a subsidy, and a balance of 30% needs to be arranged by the private developers. The private developers are selected through a process adopted by the Government of Rwanda.
 - 4.3. The project capacities may vary from a few kilowatts to megawatts, covering various applications like solar pumping for agricultural/drinking, solar mini-grids, solar rooftops in Government buildings/schools/ health centres, etc.
 - 4.4. The project viability may vary from Country to Country, and hence, VGF support may also vary. Further, the VGF support required will depend on the Project capacities as smaller Projects may require higher VGF.

C. Proposal

Based on the consultations with the countries and financial institutions, it is proposed to restructure the VGF Mechanism in the following lines:

1. The VGF scheme may be restricted to only LDCs and SIDS.
2. The countries can avail the VGF for solar projects implemented by the Government/Government institutions or for the solar projects set up by private developers, selected through a process in line with the respective policies of the Governments.
3. The quantum of VGF can be kept in the range of 10% to 35% of the project cost, depending on the project's capacities, which can be finalised on a case-to-case basis with the approval of the Director General (DG), ISA and can be part of ISA Country Partnership Agreements.
4. The validity of the VGF Mechanism may be kept for three years starting from CY 2024.
5. The current provision of USD 1.5 Million in the approved budget for 2023 may be redistributed for 2024, with a provision of USD 1.5 Million each for 2024 and 2025.
6. The proposal can be considered on a first-come, first-served basis till the availability of the budget provisions
7. A technical evaluation committee to scrutinise the proposals may be formed with the approval of DG,

ISA.

8. Detailed guidelines for the scheme may be finalised with the approval of DG, ISA.

D. Next Steps

1. The Assembly is invited to consider and approve the revised Viability Gap Funding mechanism proposed by the ISA Secretariat.