

TF071518

ANNEX C
dated March 26, 2019

TO THE ADMINISTRATION AGREEMENT
dated July 20, 2010

BETWEEN

THE GOVERNMENT OF ITALY AS REPRESENTED BY
THE MINISTER FOR ENVIRONMENT LAND AND SEA

AND

INTERNATIONAL FINANCE CORPORATION

FOR

THE FINANCIAL SUPPORT OF

AN ADVISORY SERVICES RENEWABLE ENERGY MARKET
DEVELOPMENT IN AFRICA

UNDER THE CLEAN ENERGY ACCESS PROGRAM

The majority of countries in Sub-Saharan Africa (SSA) have experienced power shortages over the past few years, resulting in load shedding and frequent interruptions to service. The economic costs of power outages, including the costs of running backup generators and of forgone production, impair these economies by reducing gross domestic product (GDP). It is estimated that infrastructure problems and deficient power generation and transmission infrastructure account for a significant drain on firm productivity - well ahead of those related to red tape, corruption, and other factors.

Chronic power shortages combined with inadequate transmission and distribution networks are the primary causes of low electricity access and consumption. Many countries simply do not have enough electricity to distribute to potential consumers.

Poor electricity supply is generally the result of inadequate investment in new power generation capacity, although, the deteriorating performance of existing power plants may also play a part. The region's high reliance on backup generators is a strong indication of the inadequacy and unreliability of grid-supplied power.

Renewable energy offers a cost-competitive option for many countries in SSA that can also allow for reduced dependence on costly imported fossil fuels, but the public sector alone cannot respond to the overwhelming investment needs in the region to revitalize its energy infrastructure and increase renewable energy penetration. The role of the private sector is critical. However, a number of market barriers prevent private companies from investing in the energy sector and, both local and international financial institutions from delivering proper financing products. These barriers include, but are not limited to, the following:

- *Market entry risks/costs for project developers.* Many countries in the region have only recently signalled interest in private investment in the power sector. There are also country-specific and macroeconomic risks that create obstacles to investment. Bankability issues are paramount and market entry costs may be prohibitively high for developers and investors.
- *Scarce access to project finance instruments.* Local financial institutions (FIs) are not adequately prepared for energy sector initiatives. Due to the lack of capacity and expertise, FIs lack the confidence to shift from traditional corporate finance to project-based instruments. Therefore, available financing is mostly restricted to collateral-based loans to existing clients.
- *Limited local experience with advanced technologies/good practice approach in project development.* Local private investors, publicly-owned utilities, and local developers often lack the state-of-the-art knowledge in project design and development for renewable energy technologies.
- *Technical system level barriers.* Many SSA countries have limited private sector incursion in the energy sector and the power systems were designed, and continue to be operated, by public sector companies, which tend to be very weak and financially insolvent.

With this in mind, IFC intends to develop the market for more reliable power, with a specific focus on renewable energy technologies, in challenging markets.

Program Objectives

The overall purpose of this IFC program is to catalyse investment in clean energy generation, transmission and distribution networks and other related infrastructure, so that the countries in SSA become more productive, competitive, and sustainable. The program aims to deliver IFC

advisory service support to provide added-value to clients and markets, with a specific emphasis on opening up new opportunities for private sector participation in the power sector.

Based on preliminary assessments of countries in SSA, there are sizeable amounts of potential renewable energy that could be harnessed in these markets, though they each have different obstacles, some more prominent than others. Hydro and solar are plentiful in the target countries (and the West Africa region in general) and promise to offer an affordable energy supply.

Components and Activities

The program will consist of two components:

1. *Sector level work*: Market/sector level work to address market barriers and facilitate replication of advanced clean energy solutions across markets. This market/sector level work will include activities that increase awareness, encourage collaboration and cooperation between companies, increase investment opportunities and contribute to the adoption of good practices in project development, advanced renewable energy/efficiency technologies, etc. In addition, this component will also include upstream work with public sector agencies in order to open up the market for private finance such as support for the development of the secondary regulations.
2. *Customized advice to clients*: Advisory to specific firms and government agencies to facilitate investments in clean energy and enhancements in power networks. It is expected that the majority of the work will focus on the following target segments: (i) power sector projects (special focus on hydro and solar); (ii) electricity transmission and distribution (T&D) networks; and (iii) public agencies responsible for public private partnership (PPP) projects.

Focus Countries

Countries will be targeted based on various criteria including renewable energy potential, expected investments, openness for private sector investment, private sector engagement in renewable energy to date, and preference for fragile and conflict affected (FCS) countries where IMELS has bilateral agreements with priority to the Sahel Region.

Expected Impact and Results

The program will measure impact against targets using the following key indicators:

- Number of people receiving access to improved electricity services
- Value of financing facilitated
- Renewable energy expected to be produced
- GHG emissions expected to be reduced

Program Budget

IFC is requesting USD 2.5 million from IMELS to support the implementation of this program. The table below includes the estimated costs across the different program activities.

| Program Activities | USD |
|----------------------------------|------------------|
| Sector level work | 1,520,000 |
| Customized advice to clients | 522,500 |
| Program Development & Management | 190,000 |
| Travel | 142,500 |
| Administration Fee 5% | 125,000 |
| Total | 2,500,000 |

Budget allocations were estimated based on the recognized need to open up these markets for private investment, thus requiring additional support at the sector/market level