



Canada-IFC Renewable Energy Program for Africa

2019 Implementation Progress Report

IN PARTNERSHIP WITH

Canada 

 **IFC** | International
Finance Corporation
WORLD BANK GROUP

Creating Markets, Creating Opportunities

ABBREVIATIONS & ACRONYMS

AIMM Anticipated Impact Measurement and Monitoring system

AREI Africa Renewable Energy Initiative

BFC Blended Finance Committee

BFF Blended Finance Facility

CA Canadian Dollars

DFI Development Finance Institution

E2E EnergytoEqual

FCS Fragile and Conflict-affected Situations

GHG Greenhouse Gas

GoC Government of Canada

IDA International Development Association

IFC International Finance Corporation

IPP Independent Power Producer

MW Megawatt

ODA Overseas Development Assistance

PSW Private Sector Window (IDA-PSW)

PV Photovoltaic

RE Renewable Energy

SDGs Sustainable Development Goals

SME Small and Medium Enterprises

SSA Sub-Saharan Africa

WBG World Bank Group

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Foreword



Mobilizing private sector investment in developing and emerging economies depends on the vital support of countries like Canada, a longstanding IFC partner with shared development objectives, values, and principles. The IFC-Canada blended finance partnership that started as the IFC-Canada Climate Change Program (IFC-CCCP) in 2011 has grown to include two additional programs: the IFC-CCCP's successor, the Canada-IFC Blended Climate Finance Program (BCFP), and the Canada-IFC Renewable Energy Program for Africa (Africa Program). And while our core ambitions and objectives remain the same — to help mobilize private sector investment to support the transition to low-carbon economies — over the course of our partnership, the global development system has undergone a remarkable evolution.

Launched in 2014, the Sustainable Development Goals (SDGs) provide a blueprint to end poverty, combat inequalities and promote prosperity while taking urgent action on climate by 2030. The Addis Ababa Action Agenda set out a global framework for financing sustainable development to support the implementation of the 2030 agenda. It includes recognition of the central role that multilateral development banks play, and that private sector investment is at the core of helping address the world's greatest development issues.

At current global emission rates, the world is not on track to reach commitments under the Paris Agreement on climate change — with the consequences for a warming world most calamitous for the world's poorest people. In addition, while the number of people living in extreme poverty around the world continues to decline, the pace of progress is slowing, with poverty increasingly concentrated in Sub-Saharan Africa and conflict-affected countries.¹

To address these worrisome trends, the World Bank Group (WBG) has set out an ambitious strategy to support the achievement of the 2030 development agenda. The WBG is sharpening its focus on improving growth and development outcomes, increasing support for the lowest income countries, including fragile and conflict-affected states where the support is most needed. At IFC, this means growing the climate share of our investments, including mitigation and adaptation, to 35 percent by 2030. By that time, IFC also expects 40 percent of our annual investment commitments to be in countries eligible for financing from the International Development Association² and Fragile and Conflict-affected Situations,³ compared to a baseline of 24 percent at the end of 2017. This requires shifting our focus to working upstream to create a pipeline of projects that will unlock private sector investment in the world's poorest countries.



The IDA Private Sector Window (PSW) was created in 2017 to support private sector development, economic growth and job creation in some of the world's least developed and most fragile countries. This \$2.5 billion commitment is about lowering risks to spur development, through a blend of concessional funds and private investment. The impact of an investment of this size and scale cannot be understated — most critically, it will deliver impact on the ground where it is needed most. The Canada-IFC Africa Program both complements and benefits from IDA PSW's work in Africa, promoting investment in a range of renewable energy products, from grid-connected solar to isolated mini grids to energy storage to hydropower, with a focus on the needs of the poorest citizens. The expected outcome is a reduced dependency on fossil fuels and progress on SDGs, such as securing universal access to sufficient amounts of clean and affordable energy by 2030.

We remain aligned with Canada on empowering women and promoting gender equality as crucial components to accelerating sustainable development. The Africa Program prioritizes a gender-sensitive approach, with an advisory component that among other activities has provided support to *EnergytoEqual*, an IFC initiative to expand women's access to jobs, leadership positions, and entrepreneurial opportunities in corporate value chains within the renewable energy space in Sub-Saharan Africa.

Along with continued progress of the IFC-CCCP portfolio and further build-up of the BCFP pipeline, we continue to develop investment opportunities for the Africa Program. The progress, however, has been slow, as the universe of private sector renewable energy projects in Sub-Saharan Africa remains narrow. Moreover, gestation periods for infrastructure and direct investments are normally quite lengthy and often get significantly extended in countries with weaker regulatory environment and less supportive macro-economic conditions.

The perception of risk and instability often slows, if not reverses, project progress. With the Africa Program's financial instruments emphasizing cost-reduction and focusing on returnable capital, it is very helpful to have additional instruments, such as these of IDA PSW, that can support de-risking project structures and therefore establishing synergies and complementarities among several blended finance funding sources at IFC's disposal.

There is no question that the conditions are tough, however, we are optimistic that blended finance instruments, in combination with other tools such as advisory and technical assistance, can help create opportunities that would not otherwise exist. We are committed to pushing the climate finance envelope, even — and especially — in the most challenging settings, because we know that through blended concessional finance solutions, we can unlock investments in renewables that will generate local jobs, create economic gains in areas like energy storage and off-grid solar, and help scale climate solutions.

Martin Spicer

Director

IFC Blended Finance Department



Program Overview

Established in 2017, the Canada-IFC Renewable Energy Program for Africa (African Program or the “Program”) is a partnership between the Government of Canada (GoC) and International Finance Corporation (IFC) to accelerate and scale up private sector investments in renewable energy projects in Sub-Saharan Africa as a means to improve access to affordable and sustainable energy services that play an important role in reducing poverty, reducing gender inequality, and tackling climate change. The eligible projects outlined in the Program are designed to be aligned with and in support of renewable energy generation in Africa under the Africa Renewable Energy Initiative (AREI). A central focus of both the Program investment and advisory components is increasing gender-responsive economic development, through a gender-sensitive approach to all projects.

CANADA AND THE WORLD BANK GROUP: A LONG-STANDING PARTNERSHIP

Canada has been an active member of the World Bank Group (WBG) for over six decades through its thought leadership and financial support, as the 10th largest donor.⁴ The partnership is generating results that improve lives in low and middle-income countries around the world, supporting the twin goals of ending extreme poverty and boosting shared prosperity. Canada is one of IFC’s largest development partners, supporting IFC’s investments and advisory services in all regions and across many sectors, with a focus on climate

adaptation and mitigation, agribusiness, gender, investment climate, and extractives. Since the beginning of its partnership with IFC in 1988, Canada has committed \$1.19 billion⁵ in funding, including \$283 million for advisory services and \$911 million for investment initiatives.

PROGRAM DESCRIPTION

Canada is IFC’s largest bilateral provider of blended concessional finance across all sectors and themes. In 2015, pursuant to the Paris Agreement, the Government of Canada (GoC) announced it would contribute a historic 2.65 billion

Canadian dollars over five years to help developing countries tackle climate change, with a focus on adaptation and resilience efforts for the world's most poor and vulnerable countries. In line with this commitment, the IFC-Canada partnership on climate grew from the IFC-Canada Climate Change Program (IFC-CCCP) to include two new programs that aim to mobilize private capital to support transformative projects and accelerate global climate action: the Canada-IFC Blended Climate Finance Program (BCFP, CA\$250 million, March 2018) and the Canada-IFC Renewable Energy Program for Africa that includes both investment (CA\$150 million, December 2017) and advisory (CA\$5 million, March 2018) components.

The Africa Program aims to accelerate and scale up private sector investments in renewable energy (RE) projects in Sub-Saharan Africa (SSA) as a means to improve access to affordable and sustainable energy services that play an important role in reducing poverty, reducing gender inequality, and tackling climate change. The Program provides a combination of advisory/technical assistance tools aimed at strengthening the breadth and quality of the investment pipeline of projects and blended finance investment instruments that are designed to support implantation of investment projects.

PROGRAM ALIGNMENT WITH THE AREI

Ensuring access to affordable, reliable, and sustainable modern energy is one of the 17 SDGs.⁶ The Africa Renewable Energy Initiative (AREI)⁷ is an Africa-owned and led effort to accelerate and scale up the continent's RE potential. The initiative aims to achieve at least 10GW of new and additional RE generation capacity by 2020, and at least 300GW by 2030.

Canada and other stakeholders welcomed the launch of the AREI, recognizing the potential for clean energy development in Africa and the need for innovative partnerships to leverage private sector investment. The eligible projects outlined in the Program are designed to be aligned with the principles set out by AREI and reflect Canada's pledge of CA\$155 million for support of RE generation in Africa under AREI.

INVESTMENT COMPONENT

The investment component of the Program provides CA\$150 million of concessional capital that can be blended with IFC's own commercial capital to catalyze private sector investment in high-impact RE projects in SSA. The program promotes a wide range of RE technologies such as solar, wind, hydro, geothermal and marine, as well as energy transmission, distribution and storage — with a core focus on meeting the needs of the poorest people. By crowding-in private sector investment in clean energy, the Program can also support broader benefits like job creation, lower electricity costs, a reduction in greenhouse gas emissions, and increasing women's economic empowerment. Objectives of the program are well-aligned with these of the AREI that articulate the need to increase access to RE for African populations.

The Program aims to support first mover RE projects that can show to private sector sponsors the market opportunity of clean energy generation in SSA and beyond. These blended concessional finance investments are also expected to help demonstrate the feasibility of RE projects to both local and international financial institutions, which will be critical to help boost financing into Africa's RE sector. If successful, projects will contribute to enhance energy security, diversify the region's power mix and reduce electricity price volatility while stimulating the development of local supply chains and creating local green jobs. Projects will also reduce fossil fuel consumption and reduce balance of payment pressure for governments that either import these fuels or rely on subsidized domestic supplies.

Returnable Capital under the Program

Blended concessional financing looks to accelerate projects with high development impact potential — and, in the case of a "returnable capital" model, the investments are structured with the objective of having a portion or the entire amount of the initial concessional capital contribution collected through reflows and returned to the original donor. In the Africa Program agreement, all the principal, interest, client fees and any other payments collected from IFC clients are collected and reflowed back to the GoC on a periodic basis.



EnergytoEqual

A key part of the advisory component is Canada's support for EnergytoEqual (E2E), an IFC-led initiative that aims to work with renewable energy companies to reduce gender gaps across leadership, employment, community engagement, and entrepreneurship and to increase research and data on the business case for women's participation. E2E undertakes a range of activities to ultimately help support creating the next generation of female leaders in the clean energy sector, which include addressing maternity/paternity/flexi hours leave policies; creating a peer-learning platform where companies come together to exchange best practices; undertake a gender-employment diagnostic; as well as a "Powered by Women" network, where female professionals can access information, share experiences and explore mentorship opportunities. As a result of project activities, IFC expects more companies to be equipped with the knowledge and tools to integrate women into their workforces and more women to have opportunities as leaders, employees and entrepreneurs in the RE sector. IFC analysis shows that implementing gender-smart measures, those proven to attract and retain female talent, can make businesses more competitive. For this reason, E2E is one of several World Bank Group programs created to close gender gaps in the private sector, recognizing that gender equality is not only a social and moral imperative, but also an economic necessity.

The intention is that, over time, reflows received by IFC in connection with the investment of the Program funds will accumulate to the amount of the original program size.

Financing Instruments under the Program

At IFC, blended concessional finance solutions are structured to address specific challenges in the market. Often that includes financing instruments that de-risk the market to make investments more attractive to the private sector. The Program funds can be invested using only two financial instruments:

- Senior Debt, which ranks above or equal to other lenders which do not have subordination features; and
- Subordinated Debt, which can include one or more of the following subordination features, without limitation: payment, security, liquidation, deferability of payments. Program funds cannot be invested as equity or any instruments that are convertible into equity.

In addition, the Program does not provide unhedged local currency or unhedged Euros, limiting financing for certain projects in countries with volatile currencies.

ADVISORY COMPONENT

IFC's advisory services focus on providing advice to help establish the necessary conditions that will help attract private capital. IFC is increasingly focused on developing high-impact projects that enable the private sector to grow — particularly in the poorest and most conflict-affected areas of the world. To further facilitate this work within the parameters of the investment component of the Program, the GoC provided CA\$5 million to provide three-pronged support through: (i) technical assistance in stimulating the pipeline of off-grid and distributed generation (DG) projects; (ii) advisory services for gender activities (see box); and (iii) beneficiaries' assessment and results measurement work for DG projects. The advisory component of the Program is designed to directly support and stimulate the investment component.

PROGRAM ELIGIBILITY

IFC acts as an implementing entity of the Program, blending Canada's concessional funds alongside IFC's own commercial resources to support projects that have met the DFI Enhanced Blended Finance Principles⁸ as well as program eligibility criteria. Careful co-investment of concessional third-party financing allows IFC to boost impactful climate-smart private sector investments where they would not exist otherwise, while avoiding market distortions and supporting evolution of these new markets towards commercial sustainability.

Eligible countries

Program funds can only be invested in eligible projects in countries eligible to receive Official Development Assistance (ODA) from the Government of Canada, which include the following:

Angola	Ethiopia	Namibia
Benin	Gabon	Niger
Botswana	The Gambia	Nigeria
Burkina Faso	Ghana	Rwanda
Cabo Verde	Guinea	Sao Tome and Principe
Cameroon	Guinea-Bissau	Senegal
Central African Republic	Kenya	Seychelles
Chad	Lesotho	Sierra Leone
Comoros	Liberia	Somalia
Congo, Dem. Rep.	Madagascar	South Africa
Côte d'Ivoire	Malawi	Tanzania
Eritrea	Mali	Togo
eSwatini (formerly Swaziland)	Mauritania	Uganda
	Mauritius	Zambia
	Mozambique	

Eligible sectors

The Program is designed to support a wide range of projects and be adaptive to challenging environments and markets across SSA, consistent with the AREI criteria. Program funds are dedicated to projects in climate mitigation, and to the extent possible, adaptation, with measurable environmental and public benefit for what is termed the "energy poor." Renewable technologies eligible for financing include: solar photovoltaic and thermal; wind; biomass; hydropower; geothermal; marine; energy transmission and distribution; and energy storage. The Program pays strong attention to stimulating the penetration of the renewable energy technology into off-grid areas — one of the most hard-to-reach areas for a commercial lending institution such as IFC.





IFC and Blended Finance

The IFC is a member of the World Bank Group and the largest development institution focused solely on the private sector in emerging markets. As part of the WBG, IFC has two overarching goals — ending extreme poverty by 2030 and boosting shared prosperity — that are aligned with the Sustainable Development Goals (SDGs). IFC is a global leader in crowding-in private finance to deliver sustainable impact in the developing world.

IFC plays a key role globally in advancing private sector climate solutions to help in the fight against climate change. Since 2005, IFC has invested more than \$18 billion in long-term financing in climate-smart industries, including renewable power generation, climate-smart agribusiness, green bonds, and green buildings.

IFC 3.0: EXPANDING OUR FOOTPRINT WHERE IT IS NEEDED MOST

IFC's new strategic framework — IFC 3.0 — intensifies its concentration on development impact, focusing on creating markets and mobilizing private capital. This means increased

support to the most fragile and least developed countries where, if unlocked, private capital flows can address major development gaps and open opportunities for all. The United Nations estimates that developing countries face a \$2.5 trillion annual investment gap in key sustainable development sectors.⁹ Job creation and economic growth, gender equality, environmental and social sustainability, and climate change adaptation and mitigation, are some of the areas that IFC supports through its financing. For example, IFC estimates that transitioning to a low-carbon energy sector could benefit the nearly one in five people worldwide without access to modern energy services.¹⁰

CLIMATE FINANCE AT IFC

IFC is the largest DFI supporting the private sector in emerging markets, making IFC uniquely positioned to create new markets in clean energy, climate-smart agriculture, energy efficiency, and more.

Drawing on the various natural resources that may exist in any given location, renewable energy offers clean, cheap

and reliable access to electricity, and puts countries on a less carbon-intensive path to growth. IFC analysis shows that the Paris Agreement opened \$23 trillion in climate-smart investment opportunities through 2030¹¹ — the case for investing in climate has never been stronger.

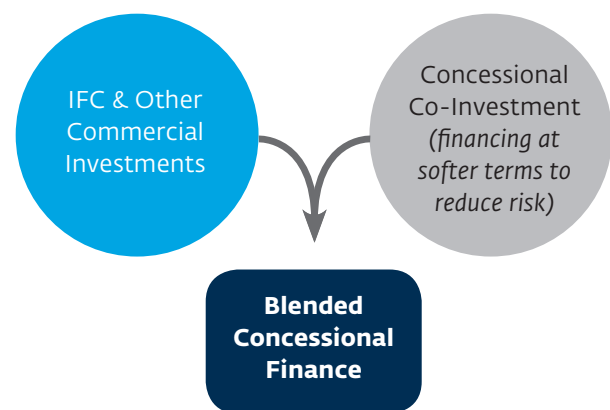
As the private sector faces higher risks associated with new, unproven technologies or first-of-their kind projects, IFC plays a key role advancing climate solutions through the use of blended finance. Blended concessional finance enables projects to take place over time, demonstrating their viability and paving the way for financing on fully commercial terms. Concessional funds help support standard-setting innovations alongside advisory services that build local capacity with firms and governments, to identify opportunities to create more favorable conditions for clean energy investments.

Blended Finance is a key tool that strengthens IFC's 3.0 strategy and supports the acceleration of climate-smart pipelines. There are several examples of how thoughtfully applied blended concessional finance can ignite private sector investment that would not otherwise exist, creating new markets in developing countries. Under the IFC-Canada Climate Change Program, the Yoma Micro Power Project piloted nascent technology in a first-of-its kind project in Myanmar. The project was an investment in a solar hybrid system to generate electricity for telecom towers and community mini-grids. In the Dominican Republic, a concessionally-price loan under the IFC-CCCP supported the construction of a 50MW wind farm, one of the largest in the country. These critical investments in renewables support developing countries in diversifying their energy matrix and reducing reliance on imported fossil fuels.

BLENDING CONCESSIONAL FINANCE AT IFC: EXPERIENCE, LEADERSHIP AND TRANSPARENCY

Blended concessional finance for private sector projects is one of the most significant tools that DFIs can use, in cooperation with development partners, to increase financing for important private sector activities, help address the SDGs, and mobilize private capital. Blended concessional finance combines funds from private investors with concessional funds from public and/or philanthropic sources, and IFC's own account commercial finances. Concessional funds can catalyze private financing that would not otherwise be available to projects with high development impact. With increased interest in the use of blended concessional finance in transformative projects, IFC pays particular attention to its ability to measure project outcomes and impact. In July 2017, IFC launched the Anticipated Impact Measurement and Monitoring (AIMM) system – as system that is designed to review and rate potential projects based on their expected development outcomes. This approach allows IFC to optimize project design and helps IFC maintain a connection between immediate project goals to the World Bank Groups' twin goals and the SDGs.

Figure 1: Blended Finance for High-Impact Projects



IFC's Blended Finance Approval Process and Project Cycle

IFC has a well-established, formal, and rigorous approach to blending concessional funds alongside its own capital, including the principles and governance by which it applies such funds. All the blended concessional finance funds at IFC are managed by the Blended Finance Department (BFD). The process followed by the BFD is closely linked to and mirrors the IFC's own project approval process to create efficiency, while balancing the need for strong governance.

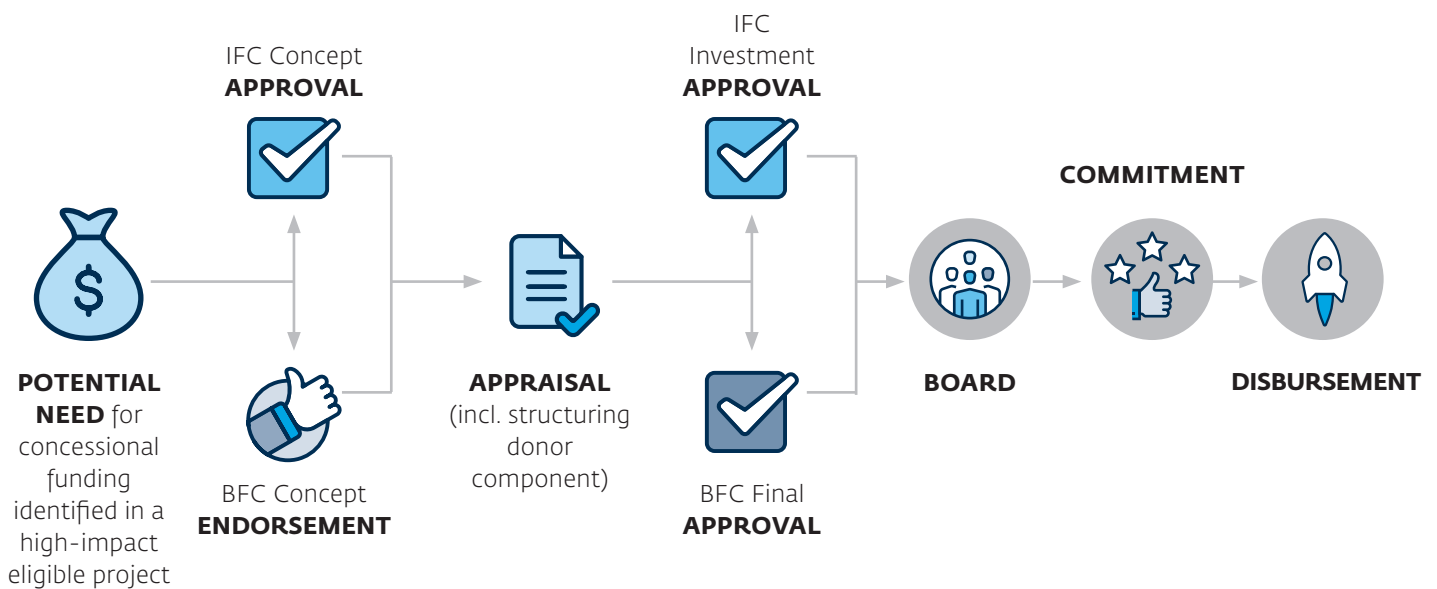
WHERE WE START

IFC business development staff in regional and global industry departments initiate the investment process by screening opportunities, conducting preliminary discussions with potential clients, and compiling relevant market research, in addition to performing initial integrity due diligence checks. When a project is determined to potentially need concessional

funding support, investment officers from the BFD work with IFC investment teams to verify eligibility, develop optimal project structure, and follow through the entire project cycle until the end of project repayment phase and completion.

Projects seeking concessional support from one of IFC's blended finance programs — such as this Program — are reviewed by Blended Finance Director and/or the Blended Finance Donor Funds Committee (BFC) at two separate stages: the concept and final approval stage. They decide on the use, structure, and terms of all donor-funded concessional investments and ensure projects they are in line with *DFI Enhanced Blended Finance Principles* (see box 1 on page 12) as well as individual program eligibility criteria. With a focused, measured and disciplined approach to blended concessional finance, IFC is ensuring that it is not distorting markets through the use of concessional resources.

Figure 2: Process for Blended Finance Transactions





Box 1: DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects¹³



Rationale for Blended Concessional

Finance: Contribution that is beyond what is available, otherwise absent from the market, and should not crowd out the private sector.



Crowding-in and Minimum

Concessional: Contribute to catalyzing market development and mobilization of private sector resources, with concessionality not greater than necessary.



Commercial Sustainability:

Impact achieved by each operation should aim to be sustainable and contribute towards commercial viability.



Reinforcing Markets:

Addresses market failures effectively and efficiently minimizes the risk of market distortion or crowding out private finance.



Promoting High Standards:

Promote adherence to high standards, including in areas of corporate governance, environmental impact, integrity, transparency, and disclosure.

IFC AND BLENDED CONCESSIONAL FINANCE INVESTMENT PROCESS

The length of time for a project to move through this process may vary significantly, depending on whether the project involves financial institutions (FIs) or real sector clients, the sector implicated, as well as the geographic location of the project. For example, infrastructure projects typically have a longer gestation period and extended business cycle. In general, the project cycle time is rarely less than six months (even for FI projects), but some projects may take in excess

of two to five years, depending on the complexity of the deal and requirements of the parties involved. In challenging political environments, such as most in SSA, projects receiving concessional financing may require additional time to appraise and structure. In many countries, perceptions of risk and instability are prevalent and can stagnate project progress.

Many, if not all the projects, infrastructure in particular, involve various regulatory approvals, agreements, and arrangements with multiple local and federal authorities (such as Power Purchase Agreement, Land Lease agreement, etc.). The need

to negotiate these, often complex, documents may lead to increased project timelines, uncertainties and project exposure to political cycles and changes.

DFI WORKING GROUP & BLENDED FINANCE PRINCIPLES

As international attention to the role of blended concessional finance has grown in recent years, so too has the need for common understanding across DFIs in applying this tool for enhanced development impact. IFC plays a leadership role among DFIs and chairs a working group of over 20 DFIs on the use of blended concessional finance for private sector projects. In 2017, the DFI Working Group on Blended Concessional Finance,¹² developed a set of guidelines that aim to maximize impact and minimize potential market distortions through the use of concessional resources. This update of principles and guidance for providing blended concessional finance for private sector projects includes guidelines for how to push for commercially-viable solutions using minimum concessionality. In addition, it advocates for increased scrutiny of projects

proportionate with the underlying risk that concessional resources could lead to market distortion.

CONCESSIONALITY LEVELS

Members of the BFC carefully ensure that all projects respond to all DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects. Particular attention is paid to calibrate the level of concessionality that a project supported by concessional finance (such as from the BCFP) is receiving.

The use of blended concessional finance starts with a case-by-case analysis to determine the appropriateness of blending concessional public with private finance, specifically, to avoid undue subsidies to the private sector and undue risk for the public sector. In 2019, IFC announced it would hold itself to the highest standards of transparency when deploying concessional resources: IFC now discloses subsidy levels for each proposed project along with justification for why it is necessary. IFC is the only DFI or blended finance implementer taking this step to date.

Expansive Partnerships

IFC works across multilaterals as a thought leader and convener on the practice of blended finance. As Canada's global development partnerships range across DFIs, IFC is thoughtful in its application of Canadian program funds, cognizant of other existing programs and implications, and working with other DFIs to prioritize maximum impact of funds.

The Africa Program leverages the support and synergies from multiple other initiatives, both within and outside IFC. There is notable complementarity between the African Program and the IDA PSW.

INTERNATIONAL DEVELOPMENT ASSOCIATION PRIVATE SECTOR WINDOW (IDA PSW) & AFRICA PROGRAM

The IDA PSW was created in 2017 to support private sector development, growth, and job creation in some of the world's least developed countries, especially those affected by fragility and conflict. It is founded on the belief that the private sector is central to achieving the SDGs, and the need to lower risk to spur sustainable development in the places that need it most. In developing markets and particularly in fragile states, a lack of access to financing hampers SME growth – loans are simply not available as the perceived risks to lenders are too high and the projects unproven. Political instability, war and currency fluctuations also create barriers and challenges for

Figure 3: IDA-PSW Blended Finance Facility



a vibrant private sector. The PSW will provide a pathway and more bankable projects that will help expand IFC’s footprint in Africa.

IDA-PSW’s Blended Finance Facility (BFF) aims to mitigate various financial risks associated with investments in SMEs and agribusiness as well as pioneering investments across sectors to unlock private sector opportunities that promote productivity improvements and innovation with strong development impact. The BFF builds on and expands IFC’s existing blended finance platforms, including the Blended Climate Finance programs, and extends support into new

high-impact sectors.

The BFF will enable IFC to expand its engagements in markets and sectors covered by its current blended finance platforms and enter into new ones critical to enabling high-impact transactions in PSW-eligible markets. In sectors traditionally covered by IFC’s blended finance program—SME, agribusiness, and climate change, the BFF builds on the current facilities, leverage existing experience and practices, and bring in additional scale and scope of engagement in the poorest countries.

Implementation Update

as of June 30, 2019

INVESTMENT PROGRAM

At the end of the reporting period, there were no committed projects under the Africa Program, and progress building a pipeline had been slow. While the relatively slow pace of pipeline development was anticipated from the outset, several factors further affected the progress.

Limited number of projects

The universe of private sector RE projects across eligible SSA countries over the Program implementation period was thin. While many governments indicated their ambitious plans to stimulate the development of RE components in their energy systems, not many have undertaken the necessary steps for creating the minimal required conditions for the private sector projects to take off. And those that have, see remarkably long gestation times and significant headwinds to projects crossing the finish line. One example of this is Zambia's first large-scale solar plant, financed in part through the IFC-CCCCP. In 2015, IFC signed an agreement with Zambia's Industrial Development Corporation to explore the development of two large-scale solar projects through the World Bank Group's Scaling Solar program. The competitive auction organized through the program attracted solar power developers, with bids that yielded the lowest solar power tariffs in Africa to date – both plants were successfully developed and went in to operation in 2019, almost 7 years after project origination.

Systemic barriers

Private sector operating conditions in SSA remain predominantly weak. While the costs of many RE technologies continue to decline, other very palpable barriers are becoming more pronounced and playing a larger role in RE projects. Countries in SSA typically represent complex and

challenging settings, with numerous barriers to private sector investment including perceptions of risk, regulatory barriers, economic instability, macro risks, weak financial systems, and many others. Often there is limited government capacity to support projects on a technical or finance level.

A qualitative leap forward on several macro-economic dimensions is required before many countries can comfortably expect to be able to attract private sector Independent Power Producers to generate power at an acceptable and affordable price. The WBG, along with many other DFIs, is working with numerous country governments on improving the attractiveness of investment climates, involving reform processes with governments. In particular, IFC's shift to working upstream, promoting innovative solutions to today's toughest challenges in infrastructure, and using blended finance solutions to get viable projects off the ground, over time, will contribute to investment climate improvements and emergence of pipeline of projects, including in the RE space.

Lengthy lead and closing times

Direct investments in RE projects often require significantly more lead time to originate and bring to financial close. This observed lead-time for renewables is consistent with upstream requirements necessary for financing real sector, greenfield projects, such as negotiation of power purchase agreements, land right acquisition, environmental and social due diligence and complex investor agreements, among others. The Program is designed to continually seek new markets where climate smart solutions are on the cusp of commercial viability in SSA.

In addition, time needed to develop projects and close financing is lengthy. Even projects considered to be "fast movers" take around three years, and that number could go up depending on the level of complexity and country conditions.

Given these restrictions and realities on the ground, the Program will benefit greatly from complementary investments including those being supported by other programs such as BCFP and IDA PSW.

Program design limitations

The returnable capital model has limitations. In this model, reflows (interest, fees, dividends and repayment of principal) are regularly returned to the provider of concessional funds with the objective of having a returnable capital facility. This limits the instruments as well as the level of concessionality and risk appetite available for use in private sector projects. In sum, while developing a portfolio, an ongoing assessment of the possible trade-offs between development impact and the required return on investments is required.

There is a limited amount of concessionality that can be delivered to the project through available financial instruments and under the returnable capital framework. Affordable debt is one ingredient at IFC's disposal, however, pricing concessionality is not the only instrument needed to make a project successful. IFC is thoughtful in how blended concessional finance solutions are structured to support high-impact projects that are attuned to the reality of the conditions on the ground. In prospective projects and conditions where there is a historical reliance on grants, the type of concessionality delivered by the Africa Program funds — namely, risk-averse, limited subsidy level, returnable capital — might be incompatible or take additional time to find the right projects.

Further, currency restrictions also put a limit on the kinds of projects IFC can undertake in SSA, as Program Funds may only be invested in United States dollars (other currency via an IFC swap-market based solution). Many of the countries covered by the Program do not have capital or swap market solutions compatible with this restriction.

Declined Projects

Despite an active effort by IFC to develop a pipeline under the Africa Program, there is a very narrow universe of RE projects in addition to complex conditions, as detailed above.

In recent times, IFC has drastically re-invented its approach to originating projects — moving away from being a passive financier towards co-developer and market creator, consistent with its new strategic framework, IFC 3.0. Working “upstream” helps viable projects get started and offers new models of financing to support them — this is ahead of where multilateral development banks and commercial financiers typically get involved in the project cycle. IFC is shifting to a more strategic approach, systematically linking our advisory programs to the greatest needs identified in World Bank Group country and sector strategies — include gender equality and climate.

The merger of the blended finance investment component and advisory component under the Africa Program allows for shared strategic priorities and will ultimately deepen the development impact of the Program.

ADVISORY COMPONENT

The implementation of the Africa Program Advisory Component started in 2018 with the launch of the gender work. The gender team began developing a set of building blocks (such as individual project case studies and best practices, etc.) that will ultimately be applied toward individual investment projects. In 2019, this work was followed by an engagement of the Off-grid TA team that is focusing on developing a standardized approach to enable a rapid roll out of competitively priced minigrids in various SSA countries. The start of the TA work was delayed slightly to ensure the ability to fully leverage IFC's strategic effort in this space. The start of the final set of activities — the beneficiaries' assessment — will be triggered by the sufficient advancement of investment projects.

The Road Ahead

Energy access and energy security remain at the core of the world's greatest development challenges. Access to Clean and Affordable Energy is a UN SDG, speaking to the importance of energy in the 2030 agenda. The increasing demand for energy in Africa, coupled with the falling prices of wind and solar energy in recent years, means that clean energy can serve as a less expensive alternative to carbon heavy energy sources like diesel, coal, or gas-powered plants. There is widespread agreement that the potential for clean energy to reach more of Africa's over 1 billion inhabitants exists — and the needs are great. IFC will continually refine its approach in using funding from the Africa Program, seeking new markets, new technologies, and otherwise pushing the envelope of climate finance.

IFC has a strong track record in renewable investments globally, investing over \$7 billion in renewable energy since 1998 (excluding large hydro). Over the last 5 years, the renewable energy share of IFC's commitments in Power Generation in SSA was 37%, compared to 12% in the prior 5-year period — an encouraging trend. While slow progress is expected, IFC will continue to push for momentum as for the world's poorest citizens — many of them living in SSA — the effects of climate change are real and unrelenting. Clean technologies like renewable energy can help meet supply imbalances — solving for energy access — and address the challenges of climate change by taking a less-carbon intensive path to growth. The case for investing in climate business has never been stronger, and with the continued support of Canada, IFC will advance the development of a renewable energy portfolio in Sub-Saharan Africa.

ENDNOTES

- 1 International Development Association, *IDA18 Mid-Term Review*, IDA18 MTR
- 2 List of IDA countries, <http://ida.worldbank.org/about/borrowing-countries>
- 3 List of FCS countries <https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations>
- 4 Canada is ranked 10th among development partners in terms of contributions paid-in to IBRD/IDA trust funds over FY15-19
- 5 All dollar figures are in U.S. dollars unless otherwise stated.
- 6 United Nations Sustainable Development Goals, <https://sustainabledevelopment.un.org/?menu=1300>
- 7 African Renewable Energy Initiative, <http://www.arei.org/>
- 8 DFI Working Group on Blended Concessional Finance for Private Sector Projects, Joint Report, October 2019, <https://www.ifc.org/wps/wcm/connect/73a2918d-5c46-42ef-af31-5199adea17co/DFI+Blended+Concessional+Finance+Working+Group+Joint+Report+%28October+2019%29+v1.3+Report+.pdf?MOD=AJPERES&CVID=mUEEcSN>
- 9 *Investing in the SDGs: An Action Plan*, <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=937>
- 10 *Climate Investment Opportunities in Emerging Markets* https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=IBLd6Xq
- 11 As above.
- 12 DFI Working Group on Blended Concessional Finance for Private Sector Projects, Summary Report, October 2017, https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES&CVID=IYCLeoB
- 13 Blended Concessional Finance Principles for Private Sector Projects, https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/solutions/products+and+services/blended-finance/blended-finance-principles

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