



Canada-IFC Renewable Energy Program for Africa

2020 Implementation Progress Report

IN PARTNERSHIP WITH

Canada

 **IFC** | International
Finance Corporation
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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
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



The following report provides an implementation status update on the Canada-IFC Renewable Energy Program for Africa, both advisory and investment components. While the Program implementation continued steadily moving forward, the COVID-19 pandemic presented new challenges, particularly in the least developed countries. While those challenges have slowed progress and complicated logistics, they also present even greater opportunities for blended concessional finance to add value in projects with high development impact where the risks to the private sector would otherwise be too high. The advisory component of the Program is expanding at a rapid pace, creating the groundwork for future gender-informed investment opportunities in climate projects. For more information, the comprehensive 2019 Canada-IFC Renewable Energy Program for Africa report is available at www.ifc.org/blendedfinance

Program Overview

Established in 2017, the Canada-IFC Renewable Energy Program for Africa (Africa 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, where feasible.

CANADA AND IFC

Canada was IFC’s first partner in blended concessional finance across all sectors and themes. This partnership started in 2011 with the establishment of the IFC–Canada Climate Change Program (IFC–CCCCP). 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–CCCCP 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 Program governance document (“Administrative Arrangement”) was amended in September 2020 to update the list of eligible countries and improve efficiency of Program reporting processes.

The Africa Program aims to accelerate and scale up private sector investments in renewable energy (RE) projects in SSA using a combination of advisory/technical assistance tools aimed at strengthening the breadth and quality of the investment pipeline.

PROGRAM ALIGNMENT WITH THE AREI

Ensuring access to affordable, reliable, and sustainable modern energy is one of the 17 Sustainable Development Goals (SDGs)¹. The Africa Renewable Energy Initiative (AREI)² is an Africa-owned and led effort to accelerate and scale up the continent’s renewable energy (RE) potential with targets for new clean energy generation capacity leading into 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 the AREI and reflect Canada’s pledge of CA\$155 million for support of RE generation in Africa under the 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 renewable energy 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 GHG 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 innovative private sector RE projects that can demonstrate the market opportunities of RE generation in Sub-Saharan Africa and beyond. Program 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 renewable energy sector. If successful, projects will contribute to enhancing energy security, diversifying the region’s power mix and reducing electricity price volatility while stimulating the development of local supply chains and creating local green jobs. Projects will also seek to 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 for a portion or the entire amount of initial capital contribution to be collected through project reflows and returned to the original contributor over time. Per the Africa Program agreement, all the principal, interest, certain types of client fees, and other payments against the Program funds collected by IFC from project clients are returned to the GoC on a periodic basis. The intention is that, over time, reflows received by IFC in connection with the Program portfolio will accumulate to the amount of the original program contribution. This “returnable capital” approach provides contributor an opportunity to create an impact, while ultimately collecting, partially or fully, their initial contribution. At the same time, this approach cannot be applied in situations where deeper levels of concessionality are required (for example, novel technologies or particularly challenging macroeconomic environment) and does not provide as high a leverage of private sector financial flows to the contributor as a “capital consuming” models can. In addition, the returnable

capital model does not allow using the impact-customizing instruments, such as performance-based incentives, which are known for their ability to provide more targeted development impact.

Financing instruments under the Program

At IFC, blended concessional finance solutions are tailored to address project barriers for each individual project. Often that includes financing instruments that de-risk the market to make investments more attractive to the private sector. The Africa 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 convertible into equity.

In addition, Program funds can only be invested in USD, as 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; and (iii) beneficiaries' assessment and results measurement work for DG projects. The advisory component of the Africa Program is designed to directly support and stimulate the investment component.

Box 1: DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects⁵



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 concessional 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.

PROGRAM ELIGIBILITY CRITERIA

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 Enhanced Blended Finance principles (see box 1) 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 in the future.

Eligible country list³

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



ELIGIBLE SECTORS

The Program is designed to support a wide range of projects and be adaptive to challenging environments and markets across Sub-Saharan Africa, 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.



Implementation update as of June 30, 2020

INVESTMENT COMPONENT

At the end of the reporting period, there were no committed investment projects under the Africa Program, although the pipeline development progress had significantly accelerated over the preceding 12 months. The Program benefits from a concerted effort to increase financing of private sector projects in SSA. As part of the IFC 3.0 strategy, IFC has significantly increased its effort and staffing in what is called "upstream", particularly in SSA. Upstream activities consist of pre-investment work that lays the foundation for future transactions, often in collaboration with the World Bank and the Multilateral Investment Guarantee Agency (MIGA). Efforts include technical assistance, capacity building for institutions and private companies, and support to clients and governments, among others. Upstream work complements IFC's existing business and unlocks new investment opportunities.

This effort resulted in a more vibrant pipeline of early stage projects, potential candidates for the support by the Program. Several high-impact projects have gone through the Blended Finance Committee review and were determined to be both eligible under the Program and responding to the Blended Concessional Finance principles.

However, despite intensive efforts by operational teams, pipeline development remains relatively difficult and progress is relatively slow. The universe of private sector renewable energy projects across eligible SSA countries remains very limited; in addition, if projects from the current pipeline are dropped or get delayed, identifying a new project/projects might be challenging. Furthermore, inability of the Program to provide investments in EUR unhedged, remains a limiting factor, as roughly half of the private sector deals in the respective sector across SSA (including South Africa) is invested in EUR and another half is in USD.



Finally, the returnable capital model continues to impose limitations on the levels of concessionality that can be delivered to projects and therefore, what projects can be supported – particularly given the typically difficult macroeconomic conditions. Under the returnable capital model, reflows (interest, fees, dividends and repayment of principal) are collected and returned to the contributor of concessional funds with the objective of covering a portion or a full amount of the original contribution. This limits the instruments as well as the level of concessionality and risk appetite available for use in private sector projects. As always, while developing a portfolio, an ongoing assessment of the possible trade-offs between development impact and the required return on investments is required.

ADVISORY COMPONENT

The Advisory Component of the Program is composed of three modules:

1. “Gender” that aims to support IFC clients that receive financing from the Blended Finance Program, to close jobs and asset gaps between men and women in the energy sector in SSA.
2. “Off-grid Technical Assistance” that is designed to stimulate a pipeline of off-grid and DG projects.
3. “Beneficiaries’ assessment” and results measurement work for DG projects that will be undertaken once at the individual distributed generation project level, at a point in time when the project is at a mature stage to be able to provide a credible estimate.

Taken together, all three advisory modules are geared towards supporting action on the ground and are essential complements to and in support of the Program’s investment component.

Gender

The renewable energy sector remains dominated by men (women are just one third of the workforce worldwide) despite the clear case for women’s participation at all levels. The largest gender gaps are in engineering and technician roles and at the leadership levels — and these trends are exacerbated in SSA.

A pioneering activity in SSA, Energy2Equal 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; undertaking a gender-employment diagnostic; as well as a Powered by Women network, where female professionals can access information, share experiences and explore mentorship opportunities. This peer-learning platform is engaging 10 companies in a partnership that fosters learning on how to close gender gaps between men and women in the energy sector. E2E is looking at the work and achievements of these 10 companies taking actions to reduce gender gaps. Companies joining E2E's two-year peer learning program have made commitments to reduce gender gaps at leadership, workforce, community levels and in companies' distribution chains. Some of the concrete actions taken so far include: flex-work principles to support work and home life; definition of a code of conduct to prevent incidents of sexual harassment and discrimination issues; gender-inclusive recruitment policies; and strengthening policies on maternity leave and childcare.

Energy2Equal is producing research that builds on the growing body of evidence making the business case for investing in women and helping companies increase women's participation in leadership, the workforce and as entrepreneurs in corporate value chains. 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. The program has forged lasting partnerships with other donors and organizations, like Power Africa (an initiative that brings together technical and legal experts, the private sector, and governments from around the world to work in partnership to increase the number of people with access to power).

The E2E team is actively working on developing and expanding a network of women leaders in the RE sector in the region. Other organizations with the advisory teams work with under Energy2Equal include: the Global Women's Network for the Energy Transition (GWNET), SEforALL, ESPAM, the South African Wind Association and GOGLA.

Technical assistance for off-grid solar

The Off-grid TA team is focusing on developing a standardized approach to enable a rapid roll out of competitively priced minigrids in various SSA countries and beyond. The start of the TA engagement was delayed slightly to ensure the ability to fully leverage IFC's strategic efforts in this space. Over the last 18 months, IFC has drastically re-invented its approach to originating projects – moving away from being a passive financier towards co-developer and market creator. Upstream work is critical here in the project preparation phase, helping 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.

Scaling Minigrids is a programmatic, replicable, and partnership-driven structuring solution to scale up the high-impact, nascent mini-grid market in SSA. The first round of country selection is also capitalizing as much as possible on the ongoing projects led by the World Bank in Nigeria, the Democratic Republic of Congo and Angola. The Off-grid TA team is now fully engaged in preparing pilot investment projects.

Beneficiaries assessment

The start of the final module of the advisory component — the beneficiaries' assessment — will be triggered by the sufficient advancement of investment projects. The merger of the blended finance investment and advisory services component under the Africa Program allows for shared strategic priorities and deepens the development impact of the Program.

THE IMPACT OF COVID-19 — AND OPPORTUNITIES FOR A RESILIENT RECOVERY

While governments around the world are leading the response to COVID-19, there are also major roles for the private sector, which can speed economic recovery and protect jobs in uncertain times. In normal times, blended concessional finance helps IFC support higher-risk projects, increase development impact, and create markets. As the world faces the human and economic impact caused by the COVID-19 crisis, IFC's blended concessional finance facilities continue to address increased risks, provide the needed relief, and prevent reversal of development outcomes. In the COVID-19 context, blended concessional finance deployed by DFIs like IFC will play an even greater role, helping to bridge critical financing gaps by placing important projects within the risk tolerance of private sector investors and DFIs, despite great market and financial uncertainty⁴. The support that blended concessional finance programs have been able to provide for COVID-19 response has also been dependent on the risk tolerance of the concessional capital provider. Programs with returnable capital expectations may be less suited to support initial recovery efforts, but their patient capital and concessional features will be key in supporting a green, inclusive, and resilient recovery.

In the context of the Africa Program, the full picture of the COVID-19 pandemic impact remains to be seen. There are some early indications that projects may face delays due to general economic slowdown across Program countries and



regions. Some projects may also need to adjust their business process to the current realities of the world under intermittent lockdowns and changes in supply-demand balances across various sectors.



Conclusion

The potential for clean energy to reach more of Africa's over 1 billion inhabitants exists. Currently over two-thirds of the continent lacks access to electricity, so IFC will continually refine its approach in using funding from the Africa Program, seeking new markets, and pushing the envelope of climate finance. 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. 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. Women are a key part of this growth, so efforts like E2E that ensure women are part of the RE sector, especially in leadership roles, are vital.

While the full impact of the pandemic remains to be seen, IFC is committed to supporting a green recovery. The conditions in SSA remain difficult but blended finance instruments, in combination with other tools such as advisory and technical assistance, can still help create opportunities that would not otherwise exist. IFC will continue to push for momentum as for the world's poorest citizens the effects of climate change are real and unrelenting. The case for investing in climate business remains as strong as ever, and with the continued support of Canada, IFC will advance the development of a renewable energy portfolio in Sub-Saharan Africa.

ENDNOTES

- 1 *United Nations Sustainable Development Goals*, <https://sustainabledevelopment.un.org/?menu=1300>
- 2 *African Renewable Energy Initiative*, <http://www.arei.org/>
- 3 *Countries in italics added as of 2020.*
- 4 *Blended Concessional Finance and COVID-19, pg.1 IFC 2021.* https://www.ifc.org/wps/wcm/connect/ffcdbd73-16d7-4281-91e5-721322a5d3db/EMCompass_Note_99-10-Feb.pdf?MOD=AJPERES&CVID=nxbODQg
- 5 *Blended Concessional Finance Principles for Private Sector Projects*, https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/bf/bf-details/bf-dfi

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