

# CLIMATE INVESTMENT FUNDS

CTF/TFC.13/CRP.1

June 26, 2014

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Meeting of the CTF Committee

Montego Bay, Jamaica

June 26, 2014

**RESPONSE OF IBRD TO THE COMMENTS OF THE UNITED KINGDOM SUB-COMMITTEE MEMBER  
ON THE REVISED CTF INVESTMENT PLAN FOR NIGERIA**

**1. In consideration of the reallocation of funds made available by the positive progress of the BRT projects, is there any reason why a portion of these funds was not allocated to the Line of Credit to Stanbic Bank for Energy Efficiency and Renewable energy project?**

The Stanbic Line of Credit's RE/EE component was structured as a \$50 million facility (\$25 million AfDB + \$25 million CTF). AfDB did not consider increasing the volume as the other potential LOC opportunity was dropped at a late stage and that one need to be cognizant of absorption capacity of any financial intermediary with regard to a nascent market.

**2. Will these projects address the regulatory bias towards fossil fuels in any way?**

The proposed World Bank and AfDB projects will not address the regulatory bias towards fossil fuels.

The World Bank has a strong ongoing power sector policy dialogue with the Regulator and is providing advice on several aspects of the reform, including attracting renewable energy IPPs. While this covers broad range of generation reforms, particular fossil fuel related issues are not part of this dialogue. There are several ongoing initiatives to support NERC's capacity building and, in particular, its ability to support the sector to increase green generation capacity: (i) under ongoing IDA/IBRD projects, World Bank funded TA and capacity building activities are providing training as well as international expertise to support NERC on solar IPP development - these activities are well coordinated with sector donors; (ii) World Bank is also providing technical support to NERC for the development of and revisions to the tariff structure (MYTO) which, together with the demonstration effect of front runner transactions will unlock the potential of additional greener resources.

Furthermore, the AfDB's Solar PV project will not directly address any regulatory issue given its pure investment nature. Nevertheless, positive demonstration effects are expected from the implementation of the project which will most likely lead in the future to new IPPs not only in solar but also in other renewable technologies.

**3. The total financing of the WB project is \$753M while the AfDB's is \$243M. Meanwhile both intend to install 100MW capacity. Can you clarify the discrepancy in finance required for projects of the same capacity?**

These figures cannot be compared on a one-on-one basis as they refer to very different approaches. While the proposed AfDB project considers the cost of one IPP project (Solar Capital Partners), the World Bank intervention proposes a more programmatic approach which comprises investments in both generation and transmission infrastructure. The CTF allocation will be used to finance at least 100MW of grid connected solar generation plants (under various configurations based on the findings of the ongoing feasibility study) which will be competitively bid out under a solicited process. The installed capacity (conservative estimated at 100MW) and cost of these projects (power plants) will be determined at a later stage once feasibility studies have been completed. In addition, the World Bank is also mobilizing resources (IBRD co-financing) to invest in strengthening of the national grid that assists in evacuation of the power from new capacity additions from the solar IPPs, most of them are expected to be in areas where the grid capacity is not sufficient to reliably absorb the power generated. A tentative breakdown of the \$753 million for the World Bank project includes \$500 million (\$100 million CTF, \$400 million private) for generation infrastructure, \$250 million for transmission

infrastructure (IBRD financing), and \$3 million for feasibility studies (IBRD financing). The final cost per installed MW for generation infrastructure deployed under the World Bank project is expected to be similar to AfDB's project, or lower, as the economies of scale are achieved.

**4. On CTF cost per tonne: WB project is \$57 per tonne, while the AfDB is \$14 per tonne. This huge difference is counter-intuitive because with the more innovative financing instruments we would expect to see higher financial leverage in the WB project, more realised capacity and more CO2 savings bringing the cost-effectiveness of the project below that of traditional concessional financing. Can you please explain the discrepancy?**

Please see clarification in Q3 above. Cost per ton of CO<sub>2</sub>eq would be similar for World Bank and AfDB projects once financing for strengthening transmission infrastructure is excluded from the calculation and final installed capacity for World Bank project is established.

**5. We note that GHG savings attributable to the overall IP are estimated to be 6.6Mt. However, the previously approved Line of Credit project claimed a 4.9Mt lifetime saving alone. Both the IBRD and the AfDB PV projects are expected to save 1.7Mt. Can you please explain how the difference is accounted for?**

The difference is caused by the number of years considered for calculating lifetime GHG emissions for the AfDB financial intermediation project. In the revised IP, lifetime emissions were estimated based on 7-year period, which is aligned with the payback period by the beneficiaries of the loans to AfDB. In the approved project, lifetime emissions were calculated for a period of 25-33 years, which corresponds to the average loan life of investments in the portfolio. The revised IP will be amended to reflect lifetime GHG emissions based on 25-33 years as indicated in the approved project.

In addition, a footnote will be added to Table 7 (page 21) in the revised IP to provide further clarification about GHG emissions savings expected from the IFC financial intermediation project. According to the IFC's guidelines and practices, the calculation of the potential lifetime GHG emissions savings for energy efficiency projects shall be based on the expected tenor of the financial instrument used, rather than the expected life of the financed capital asset. It is anticipated, however, that in many cases the life of the assets will significantly exceed the tenor (estimated at 7 years), leading to noticeably different life-time GHG emissions savings. For example, if the life of the capital assets reaches 25 years, the potential lifetime GHG emissions savings will be about 7,000 ktCO<sub>2</sub>.

**6. CTF cost per ton for the IP overall is \$35 per ton. The total investment cost per ton is \$265, which is over the \$200 per ton CTF threshold. Please could you comment?**

Please note that the \$200 per ton of CO<sub>2</sub>eq threshold agreed by the CTF Trust Fund Committee in document "Clean Technology Fund Criteria for Public Sector Operations" (February 2009) refers to the marginal cost and not to cost effectiveness. Since the marginal cost is calculated as net incremental cost of reducing CO<sub>2</sub>eq, the marginal cost will be lower than the cost effectiveness. As per the CTF Trust Fund Committee's decision from October 2013, information will be provided on the estimated marginal abatement cost for projects whose marginal abatement cost is likely to exceed \$100 per ton of CO<sub>2</sub>eq.

**7. Mention is made in the revised IP document, of the manufacturing capacity in Nigeria. Is there any reason why components of the solar plants could not be manufactured in Nigeria? This would create jobs and improve the developmental impact.**

The IPP projects will be led by the private sector and procurement of equipment will be done based on the internationally accepted commercial principles of highest economy and efficiency. As the market for equipment used for grid connected solar power plants increases with the CTF support, the expectation is that this would lead greater national manufacturing capacity, as the market reaches a tipping point for viability of locally manufactured parts.

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