August 4, 2017

[Approval by mail]: Nigeria: Utility-Scale Solar PV Program (CTF)(IFC)--PCTFNG230A

IFC Response to Comments from United Kingdom

1. "...whether the financing and market barriers have been addressed sufficiently in order to justify switching CTF finances"

The Financial Intermediation component is one of three components of the Nigeria CTF Country Investment Plan (CIP). Specifically, the Nigeria CIP includes Utility-Scale Solar PV component, Transport sector component, and Financial Intermediation component, which collectively establish exceptionally ambitious targets in delivering impact along those three dimensions. Despite the coordinated efforts by MDBs and the Government of Nigeria (GoN), progress of the CTF CIP has been slow and difficult. This is evident from the lowest, among all the CTF countries, funding approval rate (stood at 10% at the end of 2016) and even lower disbursement rate. IFC, in coordination with AfDB and the WB, has continued looking for opportunities to move the CTF agenda forward and is now very excited at the possibility of delivering impact in the utility-scale solar PV segment of the market.

At the same time, due to the difficult lending environment in Nigeria, IFC's engagement with local Financial Institutions (FIs) have not yet resulted in a sufficiently advanced pipeline of projects that could be delivered within reasonable timeframe and with reasonable certainty. IFC remains engaged with local FIs, but does not expect that projects can be delivered in a manner that would meet current CTF timeframe and objectives.

While the progress on the Financial Intermediation component remains slow, in the last few years, solar PV projects have emerged and there exists an opportunity to catalyze the market with the support of the CTF. Currently, there are no expectations that local FIs will be in a position to finance utility-scale solar PV projects and debt financing for these projects will likely be provided by International FIs (IFI). However, the successful financing of one of the very first private sector grid-connected solar PV projects in Nigeria is expected to demonstrate the viability of the solar PV sector not only to international investors, but also to local FIs, facilitating their participation in the follow up projects. Ultimately, this inclusion of the local FIs and enhancements to the conditions for their participation in financing of domestic solar PV projects will indirectly contribute to fulfilling the objectives of the Financial Intermediation component of the CIP.

2. "...when the sub-projects will be operational and able to supply power to the grid"

From the technical, sponsor commitment, and lenders' readiness standpoints, the most advanced project in IFC's pipeline is in a good shape and could be implemented rapidly. Grid connection is straightforward and the grid in the particular location of the project is strong. Nevertheless, the sector situation in Nigeria remains difficult and the first utility-scale grid-connected solar PV projects will likely face a multitude of challenges that may affect the pace and probability of success of the projects. The key ingredients (or potential impediments) of the successful delivery of solar PV projects in the country, however, are (a) successful implementation of the Power Sector Recovery Program elaborated between the GoN, the WBG, and other development partners and (b) ability of involved parties (including GoN and NBET) to reach workable agreement on bankable project documents (which will be largely modeled after recent successful Azura Edo IPP).

Provided that the Sector Recovery Program goes ahead as planned, IFC expects that Board approval could be obtained well before the end of 2019, within the timeframe established by the CTF Pipeline Management and Cancellation Policy. The commitment and disbursements will likely happen shortly after the Board approval, pending satisfactory meeting of the

disbursement conditions and in line with the disbursement schedule that would aim to tailor concessional element to the project needs. Given that the solar PV plants can be constructed quickly, it is reasonable to expect the plants becoming operational within 12-18 months of financial close.

3. "...the rationale for the assumption that USD 30m of concessional financing provided by the CTF will leverage USD 100m from the Private Sector and result in the installation of a total of 100MW PV in Nigeria."

Given the existing pipeline of the solar PV projects in Nigeria, including the ones IFC is actively involved in, IFC anticipates that within the next two to three years, IFC will be able to support projects with an aggregate installed capacity of about 100 MW. With the current prevailing global costs of solar PV projects, with adjustment to Nigeria specifics, market conditions, cost of capital, etc., IFC expects the total project cost for that capacity to be around USD 115-130 million.

Based on IFC's analysis of project economics, likely financing structure, and concessionality needed to make projects financially viable, IFC expects that around 25 percent of the financing package of these projects may need to have a concessional element. This constitutes about USD 30 million and hence the assumption of the need for approximately USD 30 million of CTF funds. The remainder of the financing package (approximately USD 85-100 million) will come from commercial sources (including project sponsors, IFC, and other IFIs). The numbers above are very much in line with IFC's experience in solar PV in Sub-Saharan Africa and global trends in the solar PV sector.

4. "...additional information on the number of jobs it expected to be generated from this proposal, and could this be disaggregated by gender."

The Program will generate jobs both during the construction and during the operation of the solar PV plants. For 100 MW of solar PV capacity, an estimate number of jobs generated, based on the standards in the market, could be around 300 jobs during construction, and 30 jobs during operation. At this moment, it is not possible to disaggregate these estimates by gender, but IFC, as part of its development impact reporting, will endeavor to track the numbers of jobs disaggregated by gender.