CTF – AfDB & IFC SOUTH AFRICA SUSTAINABLE ENERGY ACCELERATION PROGRAM

Comments/Questions from CTF TFC

		Comments/Questions	Responses
Germany	1.	All the project proposals are extremely vague. They neither give details concerning partners nor projects. Again, the NDA might be a vehicle for you to transport this sort of information, but we are somewhat hesitant to actually agree that this information should be considered classified in the South African country context at all.	It should be noted that both the original Private Sector Operational Guidelines approved January 2009 (Annex B) and the CTF Financing Products Terms and Review Procedures for Private Sector Operations approved on March 17, 2010 (Revised Annex B) state that "…for purposes of confidentiality, company names and details that would make the project identifiable by third parties are not to be included in the description". There are several confidentiality and practical reasons why MDBs does not disclose project/partner names in program proposals: 1. it is against the MDBs' policies to discuss publically sponsor names for pipeline projects given that if the MDBs were to choose not to move forward with the project after appraisal, this could have negative reputational impacts on the company; 2. If sponsors were to be included as part of a CTF program proposal, the MDBs' negotiating position with such sponsors could be compromised; e.g. the client could require a higher subsidy to undertake the CTF initiative once they realize they are a strategic and critical part of achieving the CTF objective; 3. Any perception that TFC members could make approval decisions based on the nationality of the sub-project sponsors/partners could have negative reputational impacts for the CIFs.
	2.	Energy is a focal area for German development cooperation in South	We agree that support from CTF / IFC / AfDB needs to be harmonised with other donors' programs and have stepped up

		Africa, more bilateral partners such as France, Danida and others are also active in this sector. None of the proposals gives any indication whether donor coordination was even considered (apart from a small mention of AFD's support). Any support from CTF sources would necessarily have to be harmonised with other donors' programs, a division of labour needs to be well-thought through, and all this ideally on the ground under the leadership of GoSA.	our efforts in this regard. An initial coordination meeting was held at the Norwegian Embassy on 25 March 2009. We have since been in discussions with AFD, EIB, KfW, GTZ and others to coordinate and ensure our approaches are complementary and not duplicative. Several of the current DFI programs are designed to support Government of South Africa ministries, SOEs and local government entities with whom IFC and the AfDB's Private Sector Department normally do not work. Institutions such as KfW and GTZ are working exclusively with ministries and SOEs providing funding and technical assistance. In the private sector IFC and AFD have agreed to have each institution work with different FIs to maximize the potential for market catalyzation and avoid overlap. Together the DFI community is seeking to simultaneously move the public and private sector energy efficiency markets. These efforts should provide many lessons in the future on methods and approaches for addressing market transformation. Open communication among these bilateral partners and MDBs is ongoing in Johannesburg in support of further coordination.
	3.	These project proposals by 2 implementing MDB's compound the problem of additional administrative costs. Especially the rather small project for the Energy Efficiency Program does not warrant such a large administrative budget.	The administrative costs associated with this program are in line with those of other CTF RE programs which are targeting less than half the number of sub-projects with half the CTF investment amount. In fact, the South Africa RE proposal anticipates a lower admin cost per CTF dollar invested than in other RE programs. In the case of the South Africa EE proposal, the administrative budget has been revised. Please see our response to the South Africa EE comments for further detail.
	4.	The already existing Renewable Energy Feed-in Tariff (REFIT)	We understand that it is currently Government of South Africa's intention to support 1,025 MW of projects in total under the first

		generously supports the funding of up to 500 MW (10.000 GWh) of wind and solar projects by 2013 with a considerable bigger allocation being expected in the course of the Integrated Resource Plan 2010 currently under elaboration. The private sector is ready to finance these projects on a commercial basis without further subsidies. The biggest barrier why no RE project have been undertaken so far in South Africa is the remaining implementation of the REFIT, the cheap electricity prices and the rejection of the national power utility ESKOM to take off renewable energy and feed it into its grid.	REFIT, most of which will likely be wind, with some hydro and solar. We agree that the REFIT tariffs are generous. Nevertheless, initial market entrants typically face additional costs (for example transmission/substation costs plus the costs associated with working through a new regulatory environment) which dampen project returns. At the same time, these projects are higher risk since there is no track record of project performance, which make project developers require higher returns. As a result, while REFIT levels may be generous for standard RE projects, the early entrant barriers associated with the projects IFC and AfDB will be targeting under the proposal may necessitate CTF to “balance the playing field” among developers. IFC and AfDB commit in the proposals to a minimum of concessionality, and will ensure this through its internal review procedures. In addition, there is potential to finance projects outside REFIT that will sell to private sector offtakers. We believe that such projects would be complementary and not substitutional to REFIT. The CTF would be used to enable such projects. The key barrier to such projects apart from the tariff gap is Eskom’s reluctance to wheel or offset energy charges; IFC and AfDB hope that a CTF supported project would constitute a major demonstration to the market.
	5.	The proposal seems to be based on a desk top study, is general in nature and is slightly outdated. No significant South African partner institutions, executing agencies or private companies are named in the proposal. No formal competitive process for the selection of eligible loan takers is planned. In addition, the selection criteria are not very	The proposal was developed following extensive consultation by both AfDB and IFC earlier this year, through meetings with government, NERSA, nearly all of the key private sector players in the industry, and the four main commercial banks. Many of the discussions with the private companies and banks were held in confidence, as a result of which they revealed much more information than they would have done if it had been attributed. As pointed out in the proposal, the MDBs do not intend to run a formal competitive process: this would likely incur delays, and the MDBs do not believe there are enough

		specific and traceable.	technically ready projects to justify such a process. The key selection criterion will be projects that meet the normal bankability requirements of IFC and/or AfDB, and for which CTF funds can be justified.
	6.	A detailed mapping of much more significant private, national and donor driven activities in the sector seems not having to been undertaken. A coordination of donor activities has not taken place.	As discussed above, extensive meetings were held with key stakeholders. Regarding donor coordination, a comprehensive report dated Sept 2009 and entitled “Climate Change: Who’s Doing What in South Africa?” was studied, and AFD and EIB, who seemed to have the largest programs with possible overlap, were consulted. Details on coordination efforts can be provided upon request.
	7.	The envisaged advisory services in the three categories regulatory advice, capacity building and knowledge management are described in a very general nature. Most of the activities focus on information and best practice dissemination at investors / project developers’ level. Although in principle it makes sense to accompany financial support with advisory services, the latter remain too vague in order to assess at this stage whether they will have an impact at all. Furthermore, the private sector in South Africa, especially when linked to international companies, is already well capacitated, with the biggest barrier being the lack of capacity of governmental institution. The proposal doesn’t address these	The proposal highlights that the advisory services will be delivered through an existing initiative (AREAS) that is already under development within IFC, and that coordination of the CTF funded advisory services through AREAS will ensure that the funds are leveraged with other sources of donor funding (which IFC expects is highly likely to be forthcoming, given the high priority that donors have given towards support for IFC's advisory services business line in the area of sustainability and renewable energy). Knowledge and best practice dissemination has been identified as the biggest gap in existing programs – and a detailed program to achieve this will be developed within AREAS. A key priority for IFC and AfDB in any country is to support the growth of local companies. During our conversations with developers, we have noticed that those who are not associated with international developers generally are lacking in an understanding of what is required to achieve a bankable project, and are therefore potentially wasting their time and money. The AS also component aims to address this.

		capacity needs, which, however, in a way makes sense since a lot of donor activities are already focusing on this area.	
	8.	The request for an unconditional letter of commitment for the entire amount of funds required under this program and the upfront transfer of the entire amount of CTF funding is difficult to justify under these circumstances. Not only would this undermine the steering and supervisory role of the Trust Fund Committee but would also reduce the interest income of the trust fund.	MDBs that deal with the private sector undertake certain reputational and at times financial exposure during project financing. MDBs would, for example, lose credibility with their private sector clients (as well as co-lenders) if a CTF investment were not funded upon request due to insufficient cash in the CTF accounts. Therefore, the CTF Financing Products Terms and Review Procedures for Private Sector Operations approved on March 17, 2010 allows, the MDBs to incorporate into their CTF proposals, a specific request for the Trust Fund Committee to approve that the Trustee provide an unconditional letter of commitment which would ring fence available cash for the proposed projects included in the proposal (subject to prior clearance by the TFC/Trustee that such available cash existed). While an actual cash transfer from the Trustee on behalf of the CTF to the MDB for each such project would only take place after approval by the MDB's Board approval of the project (and therefore would not reduce the interest income of the trust fund), the unconditional letter of commitment would allow the MDB, the client and co-lenders to enter into negotiations with the comfort that funds would be available at the time of disbursement.
DFID/UK	9.	The project focuses on large scale industrial renewables projects and does not make mention of what benefit the project will have for the poor.	Job creation is expected during the construction period of these large scale renewable projects. In addition, access to energy will be enhanced. There is a clear indirect impact on the poor: because any incremental energy generation (and as transformational projects these will hopefully be the first of many) will reduce the risk of outages, which have a magnified impact on the economy (job losses, high production costs, etc). Also, market development of new local enterprises such as

			construction services, engineering services, operations support, security and logistics are expected. Finally, although the primary aim of CTF projects is to support projects that will address climate change, all the developers that we have met appear to be aware of the need for BEE/BBBEE project components, as well as community development if their projects are in populated areas. Once mandated on a project, the MDBs will apply their existing expertise and resources to work with project sponsors to identify ways to optimize these aspects, as indeed they do on all projects.
	10.	The cost effectiveness calculations appear partial and do not enable a proper comparison with the threshold in the CTF guidelines.	Please refer to the section "Potential GHG Emissions Savings" for further information on the cost effectiveness calculation.
	11.	The development impacts are vague and make mention of employment provision. Can we have more detail indicating how this would breakdown? Please indicate the urban/rural split, the jobs in manufacturing, installation and servicing of the investments.	It is not possible to provide a breakdown because no project is yet mandated (this is not possible until a CTF proposal is approved). The projects are variable in size and nature; developers have different strategies, and only once mandated can these aspects be quantified for a particular project. IFC will be monitoring the development impact of CTF funded projects as we do for every other project. We will add "Direct and Indirect Jobs created through the program" and "Number of new enterprises created" as Performance Indicators to measure impact on poverty. Since these projects will be new projects, we do not have a baseline to report at this moment. These performance indicators will be monitored through a mid-term and/or final consultative evaluation.
France	12.	(i) Would it be possible for the AfDB and the IFC to provide us with an analysis of the barriers to investments? We have indeed some concerns regarding the rational for	Please see the response to comment #4 above and refer to page 2-3 of the program proposal, section "Barriers to Private Sector Development" for our analysis on barriers to investments. IFC and AfDB will work to maximize impact on private sector involvement using the CTF funding, and the

		such financial incentives. Is there any insurance that these new incentives (following recent change in tariff pricing) could have significant impact on private involvement?	concept of minimum concessionality will be applied at all times.
	13.	(ii) The level of concessionality proposed for Independent Power Producer projects seems rather high, while this type of project allow usually for some benefits. How was it defined?	The CTF concessionality was calculated following the guidelines described in the CTF Financing, Products, Terms and Review Procedures for Private Sector Operations. It is defined in the document as follows: “Concessionality of a CTF investment is calculated taking the difference between the hypothetical market interest payments and the actual CTF interest payments over the life of the loan and discounted using the relevant zero-coupon swap curve in US dollars; divided by the amount of CTF financing.”