

AFRICAN DEVELOPMENT BANK

SUSTAINABLE ENERGY FUND FOR AFRICA

GREEN MINI-GRID COUNTRY SUPPORT PROGRAMMES
EXPRESSION OF INTEREST (EOI)

19 May 2015

1 Introduction

1.1 Background

The lack of reliable, affordable, sustainable energy is a binding constraint to economic growth and to human development. In Sub Saharan Africa (SSA), there are over 620 million people without electricity access, 60% of businesses cite lack of access to reliable power as a major constraint to their growth, and power outages are estimated to cost countries 1-2% of their GDP annually.

In response to this, the Sustainable Energy for All (SE4ALL) initiative has proposed three targets by 2030 - universal energy access to modern energy services, doubling of the share of renewable energy in the global energy mix and doubling of the rate of improvement of energy efficiency. To spur investment, action is needed to create national policy and financial environments that enable changes that the market alone will not deliver. To achieve this, national governments are in the process of implementing integrated country actions - formulated through Action Agendas to be endorsed by Government and national stakeholders - that strategically transform their energy systems.

Mini-Grids are increasingly recognised as an essential part of a comprehensive strategy to achieve universal energy access. Mini-Grids are village or district level electrical distribution networks serving the needs of communities too distant and dispersed to be economically connected to the grid in the near to medium term - but densely populated enough to offer economies of scale in power delivery compared with individual home systems. Green Mini-Grids (GMGs) are mini-grids powered by either fully renewable or hybrid (mixed renewable and fossil fuel) generation. Advances in mini-grid technology and significant reduction in the cost of renewable energy - in particular solar PV - combine to make mini-grids an attractive option for isolated sites.

GMGs offer in many cases a lower-cost solution than grid extension for expanding the access to energy services to rural and peri-urban communities. Their accelerated deployment across Africa would fill a critical gap in addressing the universal energy access challenge, support economic growth, as well as displace increasing demand and dependence on diesel and kerosene as economies expand. Despite their increasing cost-competitiveness and autonomy (i.e. non- or reduced reliance on diesel imports and prices), GMGs have not yet achieved widespread adoption in SSA. They face specific implementation barriers, including:

1. **Inadequate regulation, policy gaps or uncertainty** – frequently unclear policy commitment to mini-grids, as well as possible changes in electrification plans, regulatory requirements or incentives, and uncertain actual delivery of incentives promised. The inability to charge cost-reflective tariffs is a common barrier, as is uncertainty over if and when the grid will arrive, and what happens if it does.

2. **Early stage market fragmentation and unmade linkages** – limited availability of GMG-specific market data; unmade linkages, particularly between local/national businesses and communities with demand for power, and the international developers, technology providers and financiers who each hold different parts of the necessary elements for successful mini-grid development.
3. **Inadequate human and institutional capacity, project preparation issues, and lack of standardization** – with regulatory, resource and financial situations varying between mini-grid projects, types and countries, most GMGs are currently bespoke. This creates a cost barrier and magnifies capacity constraints. There is a lack of project preparation and delivery experience and a need for a market ecosystem with more standardized technology and operational elements available.
4. **Lack of proven commercial business models** – evidence is required of the ability of mini-grid companies/utilities in Africa (often in public-private partnerships recognizing the development and economic case for rural electrification) to produce reliable cash flows to support further investment and private sector leverage.
5. **Lack of access to affordable longer term finance** – considering the above, private banks and investors are not lending to GMG projects, perceiving greater risk in a mini-grid than a grid-connected generation project, while also having little sector experience and exposure.

1.2 The African Development Bank's Role in Developing the Green Mini-Grid Sector

The African Development Bank (AfDB) is playing an important role in the development of Green Mini-Grids in Africa, in partnership with United Kingdom's Department for International Development (DFID).

The Sustainable Energy Fund for Africa (SEFA) is a Multi-Donor Trust Fund seeded by the Governments of Denmark, United States of America and United Kingdom and housed in the African Development Bank to promote renewable energy and energy efficiency in the African Continent. SEFA has a special focus on private sector driven, small to medium sized projects with the view to stimulating a transition to greener and more inclusive growth models.

Through the provision of early-stage and upstream support for enabling environment and project development - including for mini-grids - SEFA plays a catalytic role by addressing a number of barriers associated with deployment of renewable energy and energy efficiency technologies and improving the risk-return ratio expected by the private sector.

SEFA works closely with the Sustainable Energy for All (SE4ALL) Africa Hub, which is hosted at the AfDB in partnership with the African Union Commission, the NEPAD Agency and UNDP. The Africa Hub is developing a Green Mini-Grid Market Development Programme, due for launch in Q4 2015, which seeks to remove or reduce market barriers at regional scale and strengthen the ecosystem for the emergence of a thriving GMG sector in Sub-Saharan Africa.

The Development of Clean Energy Mini-Grids is one of the High Impact Opportunities (HIO) under the SE4ALL Initiative for which the Bank is playing a lead role for Africa. The HIO will galvanize action on the five interlinked barriers facing the sector, with the engagement of public, private and civil society expertise and resources.

2 Green Mini-Grid Country Support Packages

To address the barriers to growth of Green Mini-Grids in Africa, SEFA has set aside an indicative budget of USD 5 million to support enabling environment interventions in a first batch of 5-6 countries to unlock private investments in Green Mini-Grids. These are to be country-specific programmes (or “Country Packages”) that are intended to support the GMG-related priorities identified in the SE4ALL Action Agenda process.

The Country Packages are available to address sector planning, regulatory and policy interventions as well as market development (including information/data), and co-ordination work at the country level, and are expected to address the constraints of 4 key sector stakeholder types: Government, Financiers, Developers and Communities.

This Expression of Interest (EOI) process has a two-fold objective: (i) identify and prioritise the countries that will receive financial support and (ii) inform the design and implementation arrangements of the support packages. The scope of country support activities, country eligibility, prioritization and selection criteria, as well as the elements to be provided with the application are described below.

2.1 Scope

The Green Mini-Grid Country Packages aim to support the scale-up of investments in commercially viable GMG projects through a range of interventions to improve the enabling environment. The specific areas to be addressed should be defined based on need by applicant countries in the EOI, and can span across sector planning, regulatory and policy interventions and market development and co-ordination work.

It is expected that the foundations for the development of the mini-grid sector - the legal and institutional framework - should be in place. Specifically, the mini-grids sector strategy being set forth in the SE4ALL Action Agenda should have a basis in the laws governing the sector, and the institutions responsible for implementing the strategy should exist.

Against the backdrop of this legal and institutional framework, a range of interventions can be defined in the EOI application. This includes, but is not limited to:

- Energy sector policy and planning
 - Integration of mini-grid solutions into rural electrification planning and sector master planning

- Use of GIS-based planning tools e.g. for un-served community mapping
- Renewable energy resource mapping
- Regulatory framework
 - Technical regulations
 - Tariff policies
 - License and contract regulation
 - Environmental regulations
 - Fiscal policy and incentives
 - Non-power sector framework such as land use
 - Scoping/design of mini-grid support and financing instruments
- Market development actions
 - Support facilities for mini-grid project preparation
 - Market mapping and development
 - Access to finance, financier introductions
 - Training, knowledge exchange events, and awareness-raising
 - Community mobilisation
 - Market intelligence knowledge products

It is expected that for each intervention area that is identified in the EOI application, the following will be defined: existing situation, other planned interventions, gaps to be filled, and a prioritisation of interventions.

2.2 Eligibility

Countries meeting the following criteria will be eligible to apply:

- The application country must be an AfDB RMC
- Recipients of Country Packages are public institutions such as RMC Governments or sector agencies. Non-state entities may also be considered eligible where their role is complementary to that of the public sector, and where they have the formal backing of the relevant sector Ministry and the application is signed by the Minister
- Countries must not be receiving investment support under DfID's Green Mini-Grids Africa Programme (countries currently receiving investment support are Kenya and Tanzania)
- Recipients are expected to provide at least (5%) of the total project cost

In addition, preference may be given to countries with limited access to climate finance initiatives.

For eligible applicants, the following criteria will be used to short-list countries (weighting of these criteria are in brackets):

1. **Recipient's ownership and commitment, and alignment with the country's SE4All Action Agenda (20%)**. This should be demonstrated in the application as well as in referenced sector documents and/or the SE4All Action Agenda. Where Action Agendas are not yet completed, the emerging priorities should be described. Counterpart contribution and/or

co-financing (either current or potential for future follow-up) from national government and other sources will also be taken into consideration.

2. **Minimum basis of sector policy, institutional capacity and market potential (30%)** to achieve the intended project outcomes as well as demonstration effects and eventually scaled mini-grid deployments. This includes likely GMG market expansion potential as a share of universal access. This should be shown in the application by describing the relevant policies, institutions, and market situation, using data where relevant.
3. **Relevance and specificity of the technical support required (50%)**, supported by analysis of current policy and regulation and gaps to be filled. This also includes clarity of anticipated outputs and measurable indicators, and of how the proposed support fits in with other planned or on-going electricity sector interventions supported by multilateral development banks and donors, including AfDB.

2.3 Application Process

EOIs should be submitted by 1st July 2015 to the SE4All Africa Hub at SE4ALL.Africa@afdb.org and include the following documents:

- Official request letter signed by the relevant sector Minister (e.g. Ministry of Energy, Planning, Finance or other relevant Ministry)
- A concept note on the support requested **not exceeding 10 pages** and following the outline detailed in Annex I

While not mandatory at this stage, applicants are encouraged to provide any relevant supporting documentation that could facilitate the review process, including SE4ALL Action Agenda, Sector Strategy, Master Plan, Laws and Regulations in place, institutional setup, market assessments etc.

The Bank team will then review the submissions and establish a short-list of applicants based on the criteria outlined above. Short-listed applicants will be contacted for further discussions, and a scoping mission will be carried out to the applicant country if necessary.

Depending on the results of this EOI, SEFA expects to launch GMG Country Support Programmes in approximately 5-6 countries in 2015-16. If required, additional EOI rounds will take place in subsequent years.

Annex I: Outline for EOI submission

(Maximum 10 pages)

SECTION	INSTRUCTIONS
Country Context and Sector Issues	Summarize the national and sector context in which the project will be implemented, and describe GMG-relevant national policies, sector planning tools, regulatory and sector issues and gaps, the market situation, the link with the SE4ALL Action Agenda, and other relevant programmes and activities that are planned or under way. This should include relevant data and statistics, including on population without access to electricity (total & percentage) and the consumer cost of electricity. An analysis of gender issues identified for the project should also be included.
Project Description and Rationale	Provide a brief description of the project "raison d'être" including the challenges addressed, scale of potential impact, narrative project theory of change, alignment with national policies, and development outcomes (e.g. rural electrification, energy access, capacity building, technology transfer, women's economic empowerment, etc.)
Project Objectives	Provide a succinct overall objective for the grant that has a clear logical linkage with the SE4ALL Action Agenda, beneficiary needs and grant components. Where applicable, reference should also be made to other related activities financed or requiring additional financing.
Executing Agency	Provide a brief description of the grant recipient/ beneficiary /executing agency or agencies, and their capacity and experience in implementation of projects funded by Development Finance Institutions.
Technical Assistance Activities	Provide a detailed description of each of the components under the proposed SEFA grant, including specific activities, deadlines and responsible parties for each activity. Where the activities will be carried out in parallel with other sector interventions, indicate activities that are to be supported by SEFA and those to be supported under other programmes.
Outputs and Deliverables	Provide, preferably in tabular format, a summary of the outputs for each component/activity under the SEFA-supported Technical Assistance Activities.
Implementation schedule	Provide a breakdown of the implementation arrangements and timeline of the SEFA-funded activities.
Budget/Cost Structure	Provide a breakdown (in tabular format) of SEFA-funded activities and their relevant costs, distributed over the timeline.