**BASIC INFORMATION**

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
<th>Project Name</th>
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<td>Cabo Verde</td>
<td>P170236</td>
<td></td>
<td>Renewable Energy Development Project (P170236)</td>
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<td>Jul 23, 2020</td>
<td>Energy &amp; Extractives</td>
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<table>
<thead>
<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Investment Project Financing</td>
<td>Republic of Cabo Verde, Ministry of Finance</td>
<td>Special Project Management Unit</td>
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</tbody>
</table>

**Proposed Development Objective(s)**

The proposed project development objective is to increase electricity generation from renewable energy sources in Cabo Verde.

### PROJECT FINANCING DATA (US$, Millions)

#### SUMMARY

<p>| | |</p>
<table>
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<tr>
<td><strong>Total Project Cost</strong></td>
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<tr>
<td><strong>Total Financing</strong></td>
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</tr>
<tr>
<td>of which IBRD/IDA</td>
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<td><strong>Financing Gap</strong></td>
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#### DETAILS

**World Bank Group Financing**

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<tr>
<td>International Development Association (IDA)</td>
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<tr>
<td>IDA Credit</td>
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**Non-World Bank Group Financing**

<table>
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<th>Financing Instrument</th>
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</table>
B. Introduction and Context

Country Context

Cabo Verde is a small archipelago of ten volcanic islands (of which nine are populated) situated in the Atlantic Ocean about 500 km off the coast of Senegal. Its population is small, only numbering about half a million people. Before the global financial crisis, Cabo Verde experienced rapid economic growth, and in 2007 it graduated to a middle income developed country. GDP per capita almost quadrupled from 1989 to 2017, rising from US$800 to US$3,000, with annual average growth rates around 6.7 percent, due mostly to the rapid growth of services. Tourism has driven growth and has played a catalytic role in the development of other key sectors, including construction.

Despite the challenges associated with being a small island economy, Cabo Verde witnessed spectacular social and economic progress between 1990 and 2008, driven mainly by the rapid development of inclusive tourist resorts. In the wake of the 2008 global financial crisis, the country experienced a protracted slowdown and struggled to achieve growth rates above 1 percent between 2009 and 2015. The impact of the 2008 crisis on the country’s growth trajectory was in part attributed to the high dependence of its economy on tourism and foreign direct investment (FDI) from Europe, and the lack of economic diversification. Subsequent expansionary fiscal policy, financial support to loss-making SOEs, and a large public investment program fueled the deficit and public debt, which skyrocketed to 128 percent of GDP in 2016. The latest Debt Sustainability Analysis (DSA, 2018) concluded that Cabo Verde’s risk of external debt distress remains high. Therefore, prudent debt management, including mobilization of concessional borrowing, remains essential to maintain debt repayment capacity.

Gross domestic product (GDP) growth recovery started in 2016 and is estimated to have reached 4.7 percent on average in the 2016-2018 period, driven primarily by exports (agriculture/fish) and investments. Robust growth in the industrial sector and commerce supported the pick-up in economic activities. However, the agriculture sector, which employs 15% of the population, continues to be adversely affected by the impact of the year-long drought in 2017. The fiscal balance is estimated to have improved by 0.1 percentage point to 3% in 2018 owing to a pickup in revenues. Total revenues reached 28.7% of GDP in 2018. Both tax and non-tax revenues expanded to counter a sharp fall in grants. Total expenditures remained flat at 31.6% of GDP as capital spending was reduced to accommodate higher spending on wages and goods and services.

Leveraging scarce public resources to attract private sector investment will be important to fuel growth and reduce public debt burden. However, the combination of high debt, strong presence of the state in the economy, small population and
wide geographic spread creates a challenging environment for private sector development, for instance in power generation. The ranking of Cabo Verde on the Doing Business Index has been eroding for the past years and is now 137th out of 190 countries, below the average of its structural peers.

In response to these challenges, the Government of Cabo Verde (GoCV) has embarked on an ambitious program of SOEs reforms and, more broadly, of improvement of the business environment and quality of delivery of key services such as in transportation, energy and ICT. Growth regained its momentum between 2016 and 2018, reaching an average of 4.7 percent. Overall financing needs, including on-lending to SOEs and recapitalization, fell from 10.8 percent of GDP to 7.6 percent over the same period. The GoCV has launched an ambitious plan to restructure and privatize 23 SOEs, including the electric utility ELECTRA. As a result of these initiatives, growth is projected to gradually rise to 5 percent over the medium term, driven by increased activities in the services sectors.

Although the outlook is positive, continued attention to downside risks is warranted. As a Small Island Developing State (SIDS), the country’s exposure to adverse economic shocks is substantial due to vulnerabilities to fluctuations in commodity prices (including fossil fuel imports), global financial conditions and natural disaster shocks, including the impacts of climate change. Cabo Verde’s lack of resilience constitutes an important risk to further progress. Repeated shocks undermine the resilience of households to recover and pick up their livelihoods, which particularly affects the poor.

Going forward, reducing the cost of energy through increased renewable energy (RE) penetration can contribute to lower the cost of electricity services, which remain relatively high in Cabo Verde and the exposure of the power sector to petroleum price fluctuations. On the one hand, reliable and cheaper electricity is likely to yield a growth dividend.

**Sectoral and Institutional Context**

The energy sector in Cabo Verde has accomplished tremendous progress in the past 10 years: access has increased from 47 percent in 2000 to more than 90 percent today, although quality of service remains a challenge. The GoCV’s target is to achieve universal electricity access by 2020. Despite this, the energy sector in Cabo Verde continues to face challenges that could undermine its ability to support economic growth. Regarding quality of service, while the annual duration of blackouts has decreased by 30 percent between 2013 and 2018, the number of blackouts has increased by 60 percent, and all other monitored indicators related to system availability have essentially remained constant over the same period.

Cabo Verde’s electricity sector is dominated by ELECTRA, the vertically integrated public utility company responsible for electricity generation, transmission, and distribution. In 2018, ELECTRA produced 429.6 GWh of electricity with an installed capacity of 132 MW. ELECTRA’s performance is weak and characterized by high technical and commercial losses. Overall, ELECTRA system losses amounted to 25 percent in 2018, compared to 29 percent in 2012. This represents a limited reduction despite network improvements and investments in a loss reduction plan to fight fraud and protect revenues1, the vast majority of losses being commercial. The highest losses are found in urban areas, particularly the capital city of Praia, where energy theft is rampant. High electricity tariffs limit the affordability of energy uses for many households and are a contributing factor to the high level of electricity fraud and theft.

High commercial losses and non-payment from public entities are amongst the greatest challenges ELECTRA faces to improve its financial performance. While the tariff allows for cost recovery, the regulator allows for recovery of an efficient

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1 These investments were financed by the last IBRD operation (CAPE VERDE - Recovery and Reform of the Electricity Sector Project (P115464)), a loan from Government of Portugal and a loan from the European Investment Bank. The implementation of the revenue protection program has been delayed and is yet to be fully deployed.
level of losses, but not the actual high losses faced by the utility. In 2018, the utility’s retained earnings were at a negative US$8.6 million, resulting in negative equity. ELECTRA’s weak performance is undermining its ability to improve service reliability, and the company’s level of indebtedness (12.5 percent of GDP) is a significant source of fiscal risk. Indeed, ELECTRA holds the largest stock of government guaranteed debt. The current government has decided to privatize ELECTRA and is in the process of implementing a series of measures as a precursor to privatization by the end of 2019, including a revenue protection program, regulatory accounting and market sounding. The Bank is supporting this work through the provision of a transaction advisor financed by the SOE Related Fiscal Management Project - (P160796) and the preparation of an additional financing to finance the actual implementation of the transaction.

Historically, electricity demand growth in Cabo Verde has been met exclusively by imported petroleum products (80 percent), which supply most of the electricity production and cover the fuel demands for industry, transportation, and approximately 30 percent of households’ energy consumption. Traditionally, the only exploited primary energy resource was biomass, which still covers a significant proportion of household energy needs (for cooking), especially in rural areas (55 percent). However, renewable energy penetration has increased significantly in recent years, from less than 2 percent of the utility’s generation mix in 2010 to about 20 percent in 2018, including wind (15%) and solar PV (3%) (31.5 MW of RE capacity installed, generating 83 GWh). This increased penetration is mainly due to the commissioning of two IPPs in the country: Cabeolica (25MW Wind), the first IPP in the country, which has been operating successfully since 2012, and the wind farm of Santo Antao (1MW) which is operating since April 2011.

Electricity prices in Cabo Verde are amongst the highest in Africa; residential tariffs have averaged US$0.28/kWh over the past four years but have fluctuated as high as US$0.36/kWh in March 2019 for higher-consuming (>60kWh/month) residential users. Tariffs are cost reflective and low-income energy consumers benefit from a social tariff policy based on their level of consumption. High electricity costs are due to dependency on imported fossil fuels for electricity generation, small isolated systems across the archipelago, as well as high losses.

In 2017, the GoCV published its Strategic Plan for Sustainable Development (PEDS, the acronym in Portuguese), which includes the National Program for Energy Sustainability (PNSE). The long-term goals outlined in the PNSE are to accomplish a transition to a secure efficient and sustainable energy sector, reducing dependence on fossil fuels and ensuring universal access and energy security. Five pillars that will be implemented to meet these goals, as follows: (i) strengthening the institutional framework and improving the business and investment environment; (ii) reform of the organizational structure of energy markets; (iii) investment in strategic infrastructures; (iv) development of renewable energy and (v) promotion of energy efficiency. GoCV has also established renewable energy targets as part of its Nationally Determined Contributions (NDCs) under the United Nations Framework on Climate Change (UNFCCC); by 2025, the country seeks to achieve a 30 percent of the power generation installed capacity from Variable Renewable Energy (VRE) sources. Decree Law no. 1/2011 establishes the provisions related to the promotion, incentives, access and licensing for renewable energy integration (IPPs and distributed generation).

To plan for the necessary infrastructure and related investments to meet the energy goals under the PNSE, the GoCV has prepared a Master Plan for the Power Sector (2018 - 2030). The Master Plan concluded that the least-cost plan to meet energy demand by 2030 includes renewable energy (RE) generation of 54 percent, met by installation of around 251 MW of RE capacity (160 MW of solar PV; 91 MW of wind). The first implementing period (2018-2025) would require 114 MW (around 63 MW of PV and 51 MW of wind power). Approximately 13 MW of priority solar PV projects have been identified.

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2 The annual report is being finalized by the auditors and should be available soon.
3 This was the first commercial-scale, privately financed, public private partnership (PPP) wind farm in sub-Saharan Africa. The project was developed by EleQtra, who entered into a long-term PPA with ELECTRA. The total capital cost was $84million. Today, Cabeolica has an installed capacity of 25.5MW and provides sufficient renewable power to satisfy roughly 25% of Cabo Verde’s demand for electricity. Source: https://eleqtra.com/projects/cabeolica-wind/
for the period from 2019 – 2020.

As part of the preparation of the Master Plan, the GoCV developed a RE Atlas in 2010 which identified the sites for potential solar and wind projects and designated them as Renewable Energy Development Zones (Zonas de Desenvolvimento de Energia Renovável, or ZDERs) under the Decree Law no. 1/2011. The ZDERs are reserved for VRE projects. A dynamic stability study identified associated infrastructure investments required to facilitate increased RE penetration, mainly storage and grid extension and reinforcement.

The GoCV plans to attract private sector investment to larger VRE projects (5 MW and above) through tenders for Independent Power Producers (IPPs). Public funds are planned be used to finance small-scale RE generation that cannot attract private developers.

The GoCV also seeks to capitalize on its potential for distributed energy generation; Cabo Verde is estimated to have 250 MW of rooftop solar PV potential, of which only 4 MW has been installed so far. Studies under the Distributed Solar Energy Systems Project (P151979) identified challenges for scaling up distributed generation, including lack of adequate financing for residential and small and medium enterprises (SMEs), insufficient local technical capacity and import duties. In 2019, the GoCV approved regulation for net billing, which allows solar PV system owners to export any surplus production to the grid at a pre-defined tariff (approximately USD 0.08/kWh). Additionally, the GoCV budgeted USD 5 million in 2019 to provide subsidies to commercial banks to reduce lending rates on distributed PV generation systems, which is expected to support approximately 3 MW of additional distributed solar generation.

**Relationship to CPF**

The Project aligns with the draft CPF under preparation for FY20-25 and seeks to address key challenges identified in the Strategic Country Diagnostic published in March 2019.

It is directly aligned with the draft CPF’s Focus Area II: Strengthening the environment for a diversified economy. More specifically, it is aligned with Objective 3: Improving fiscal and macroeconomic resilience. By increasing the share of renewable energy, the project will contribute to decrease the country’s vulnerability to price volatility of imported fossil fuels. Lower Levelized Cost Of Energy (LCOE) from renewable energy resulting from the project will lead to a reduction in electricity prices making the country more competitive and increase in household’s disposable income; both of which can serve as a driver for increased economic growth.

The project supports the draft CPF Objective 3 Indicator of increasing RE capacity from 17% in 2017 to 25% in 2023; as well as the Supplementary Progress Indicator of a decrease in the tariff from 23.95 ECV/kWh in 2018 to 23.6 ECV/kWh in 2023.

The Project is fully aligned with the draft CPF Objective 4: Improving services for private sector growth. Indeed, by providing partial guarantees and financing grid infrastructure investments to catalyze private sector investment in renewable energy generation, the project will result in improved availability and reliability of electric power services to drive private sector growth. This is also in full alignment with the World Bank’s Maximizing Finance for Development (MFD) approach by financing investments need to attract private sector investment to the energy sector.

The Project supports the World Bank Twin Goals and strategy for Africa by contributing to the supply of clean energy for growth and private investment and reducing the cost of electricity to low-income households (particularly those that do
not meet thresholds for subsidies). It is also aligned with the guiding principles included in the World Bank Group Energy Directions Paper,4 in particular in contributing to the expansion of renewable energy in the energy mix, seeking market solutions to leverage financial resources and helping governments to foster private sector participation and investments. It is also aligned with the SEforALL Country Action Plan for Cabo Verde.

Finally, the project is aligned with Cabo Verde’s commitments for climate change mitigation under its NDC, supporting the global effort to mitigate climate change and improves resilience for Cabo Verde, which is particularly vulnerable as a Small Island Developing State.

C. Proposed Development Objective(s)

The proposed project development objective is to increase electricity generation from renewable energy sources in Cabo Verde.

Key Results (From PCN)

Progress towards achieving the project development objective will be measured by monitoring the following key indicators:

- Renewable energy generated (MWh)
- GHG emissions avoided (million tCO2)
- Private capital mobilized (USD million)
- Households with rooftop solar PV (thousand)

The following intermediate indicators will also be measured:

- Length of power transmission and distribution lines erected (km)
- Number of capacitor banks installed (#)
- Number of commissioning tests completed successfully (#)
- Renewable energy capacity installed (MW)
- Storage capacity installed (MW)
- Citizen engagement
- Number of trainings conducted (% women trained)

D. Concept Description

While the GoCV has an ambitious plan to increase renewable energy penetration in its energy mix, there are a number of challenges to meet its goals, including: the lack of scale of power generation due to small islands; the need for storage and grid extension and reinforcement; the need for support for distributed generation; and the government’s need for technical assistance to launch and supervise renewable energy IPP transactions.

The proposed project will support the GoCV to implement its VRE integration goals under its energy sector Master Plan and will comprise four components:

- Infrastructure investments to increase renewable energy generation and support its integration into the grid;
- Distributed generation for residential and small commercial and industrial end-users;
- Credit enhancement to attract private sector investment to renewable energy projects; and,
- Technical assistance for capacity building and pipeline development.

Project preparation activities will also support the definition of the project cost and scope. More specifically, a Project Definition Activity (PDA) grant of USD 0.415 million has been secured from the Global Infrastructure Facility (GIF) to provide technical assistance, advise and assist the GoCV in preparing and appraising the next renewable energy IPP tender in Cabo Verde. The PDA will support:

- Technical feasibility / validation of the two solar IPPs in São Vicente (5MW) and Sal (5.6MW) islands. This work will include feasibility studies and update/revision of technical specifications to accompany standardized procurement notices. The procurement documents already developed by the GoCV (with support from GIZ and LuxDev) will be used as the basis for this work.
- Preparation of the four small-scale solar PV projects on Fogo, Santo Antão, Maio, and São Nicolas islands. This work will include feasibility studies, identification of potential PPP models that the GoCV could use to attract the private sector to partially finance and/or operate the plants, as well as preparation of procurement documents.

The PDA support will ensure that the tender process is developed and structured in a timely manner to meet the GoCV’s aggressive timeline, is consistent with international best practices for IPP power projects and compliant with the laws of the country, as well as, fair/equitable to all stakeholders. Based on international experience, the previous IPP tenders in Cabo Verde and market sounding of prospective investors, the PDA’s scope of work will also make recommendations for continued improvement of the GoCV’s procurement framework and processes to attract private sector financing for subsequent rounds tenders for its renewable energy generation program as per the energy sector Master Plan.

In addition to the GIF grant resources, a grant of USD 0.25 million is expected from ESMAP’s Integrating Variable Renewables Program to finance additional technical studies to assess the technical and financial feasibility of deploying battery storage facilities. The implementation of the grant requires the prior approval of a PCN. The results of these studies will inform the implementation of the storage investments under this project (described below).

The estimated project cost is USD 15 million, and the financing package is expected to be comprised of:

- USD 3.0 million IDA credit;
- USD 5.0 million IBRD loan;
- USD 5.0 million concessional loan from the Canada Climate Innovation Financing Facility (CCIFF); and
- USD 2.0 IDA Guarantee.

The project is comprised of four components, as described below. Table 1 provides an overview of the sources and uses of funds.
Table 1: Sources and Uses of Project Funds

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<td>Component 3: Risk mitigation mechanisms</td>
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<td>2.0</td>
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Component 1: Infrastructure investments (USD 11 million). This component will support the construction of small-scale solar power plants as well as grid expansion / reinforcement and installation of energy storage facilities to support renewable energy integration. Based on the priority needs of the GoCV, the proposed Project will finance the following renewable energy projects and enabling activities, which are included in the first phase of the energy sector Master Plan: a) enabling infrastructure for the two solar PV IPPs: 5 MW on São Vicente and 5.6 MW on Sal islands; and b) four small-scale solar PV projects: 1.3 MW on Fogo; 1.2 MW on Santo Antão; 0.4 MW on Maio; and 0.4 MW on São Nicolas islands to be financed partially with public funds.

Sub-component 1a: Small-scale renewable energy generation (est. USD 4 million)

The small-scale power plants in the four small islands (1.3 MW on Fogo; 1.2 MW on Santo Antão; 0.4 MW on Maio; and 0.4 MW on São Nicolas islands) are unlikely to attract private developers. This sub-component will therefore be used to finance the development of those power plants.

If a portion of private financing can be leveraged for a portion of the project investment cost (e.g., under a PPP arrangement), the sub-component will co-finance the remaining portion of the investment costs. The viability to attract private sector financing to partially finance and/or operate the plants will be explored under the ongoing, GIF-supported TA activity. Subject to the outcome of this assessment, this subcomponent will co-finance capital investment needs for these projects.

Sub-component 1b: Grid improvements (est. USD 6 million)

The lack of associated grid improvements investments constrains the pipeline of renewable energy projects, both in terms of number of projects and individual project size. These factors in turn can dampen interest in private sector participation in Cabo Verde’s renewable energy market.

This sub-component will finance new transmission and distribution lines required to connect the new generation facilities (two IPPs in São Vicente and Sal as well as four power plants in Fogo, Santo Antão, Maio and São Nicolas) and the reinforcement (substation upgrades) of Santiago’s transmission and distribution infrastructure. Those investments will solve under-voltage and line over-loading issues resulting from the fact that the load areas are usually far away from the renewable energy generation sites.

Sub-component 1c: Energy storage facilities (USD 1 million)
In the short to medium term, the GoCV has expressed a need to explore the utilization of battery storage facilities to smoothen demand and supply fluctuations and therefore support voltage and frequency regulation of the grid, particularly in smaller islands of the archipelago where high-voltage grid is not available. An amount of USD 1 million will be used to finance pilot facilities based on the results of the study that is being financed by the grant from ESMAP’s Integrating Variable Renewables program.

Component 2: Distributed generation (USD 1 million)

The GoCV has a target of implementing approximately 5MW of distributed generation over the next few years for residential and commercial customers. This is part of its broader goal to implement a total of 50MW distributed generation across all nine islands by 2030. The regulatory framework to support distributed generation was put in place in early 2019, including regulation for net billing, and the government has implemented successful pilot projects, supported by the World Bank Distributed Solar Energy Systems Project (P151979). Despite progress on the regulatory front, important barriers still exist for scaling up, including the high up-front cost of systems; high cost of local financing; and lack of awareness of banks, as well as residential and commercial end-users, of the risks and benefits of distributed solar PV systems.

Currently, the GoCV is supporting distributed generation projects by providing a subsidy (50 percent) to private banks to reduce the cost of loans to micro-generators. Approximately USD 0.5 million of subsidies have already been provided to the pilot projects. The GoCV would like to increase its support to scale-up distributed generation, and is considering potential approaches to doing so, including increasing the value of its current subsidy program or establishing a revolving credit line with a local bank. These options will be explored during project preparation.

Component 3: Risk mitigation mechanisms for RE IPPs (USD 2 million)

Cabo Verde has a recent history of attracting private participation/investment in its renewable energy sector, and two wind IPPs have been operating successfully in the country since 2011. The first and largest IPP, Cabeolica (25 MW wind farm), required a government guarantee to attract private investment. The government has also recently launched tenders for additional solar and wind capacity via IPPs with the support of the Luxemburg Development Agency (LuxDev). LuxDev is in the process of evaluating the market needs for guarantees to support these transactions.

Attracting additional IPPs is expected to require credit enhancement support, precisely because ELECTRA will remain the sole power off-taker of the new IPPs, and the utility’s poor balance sheet presents a bankability risk. Uncertainty regarding the privatization process is also expected to exacerbate risk perceptions by the market.

To mitigate against those risks, IDA payment guarantees can be offered to attract private investments to the two larger solar PV IPPs in Sal and São Vicente, especially in business environments where there is a cost reflective tariff and a credible sector recovery plan. The IDA guarantees would be in the form of payment guarantees that would backstop ELECTRA to provide a security via a Letter of Credit (LC) equivalent to 3 to 6 months of payment under the PPA. A MIGA guarantee / insurance type of instrument may also be considered to guarantee termination payments.

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5 Additional investments in storage for grid stability will be considered by the GoCV as needed. The possibility of covering the investment costs of storage facilities by the IPPs will also be explored.

6 The GoCV is also exploring a leasing model for public buildings similar to that used in the Maldives. This will be further explored during project preparation.
The structure of the risk mitigation mechanism will be firmed up based on the results of the transaction advisor’s work, which is being financed with the GIF PDA.

Component 4: Technical assistance and capacity building (USD 1 million)

This sub-component will support expenses related to the project’s implementation, including an owner’s engineer and/or consultants as well as stakeholder engagement, trainings, workshops, and travel.

It will also support the preparation of additional technical studies that may be required during implementation, to be identified during the preparation phase. It will also support a communications campaign to support scale-up of distributed generation. This component may also include support for transaction advisory for future IPP structuring, if desired by the GoCV (to be confirmed during preparation).

<table>
<thead>
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<tr>
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<tr>
<td>Projects in Disputed Areas OP 7.60</td>
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</tr>
</tbody>
</table>

Summary of Screening of Environmental and Social Risks and Impacts

This project will combine private and public funding. The part of the Project involving investment by the private sector, will involve the development of two PV power plants. The main E&S risks during this part of the Project includes labor and working conditions, air pollution and noise generation due to vehicle emission/movement, land and water contamination through accidental oil/fuel spills and potential road traffic crashes. Possible involuntary resettlement is to be considered for the construction of the two power plants. The small solar PV facilities will be handed over to the private operator to maintain and operate over the construction and implementation period, whereas the IPPs will be managed by the private sector from the start.

The part of the Project involving investment by the public sector, will involve the construction of the six power plants, grid reinforcements and battery storage. The proposed project is anticipated to have direct and indirect environmental and social benefits, including the decrease of CO2 emission and other air pollutants through the integration of more clean electricity from renewable sources, possible reduction in the price of electricity and increase in PUI capacity building. At the same time, potential negative environmental impacts and safety risks are also expected. The main environmental and social risks could be related to the civil works, environmental disturbances, and land acquisition and resettlement.
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Country Director: