AFRICAN DEVELOPMENT BANK GROUP

PROJECT: P-REC AGGREGATION FACILITY

SAP CODE : P-Z1-F00-146
COUNTRY: MULTINATIONAL

ASSESSMENT REPORT OF P-REC AGGREGATION FACILITY

May 2025

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ACRONYMS

AFDB:	African Development Bank
EPP	Energy Peace Partners
ESMS:	Environmental and Social Management System
GBV/SEAH:	Gender Based Violence / Sexual Exploitation and Harassment
I-REC	International Renewable Energy Certificate
ISS:	Integrated Safeguards System
NDCs	Nationally Determined Contributions
OS:	Operational Standards
PAF	P-REC Aggregation Facility
P-RECs	Peace Renewable Energy Certificates
RECs	Renewable Energy Certificates
SDG	Sustainable Development Goals
USD:	United States Dollars

1 Project Description

1.1 Background

Energy Peace Partners (EPP) is a non-profit organization that supports renewable energy as a building block for peace in geographies affected by violent conflict. Since 2017, EPP has been working to develop innovative solutions and approaches that catalyze renewable energy investment in fragile, energy poor regions of the world that deliver enduring benefits to the planet's most vulnerable populations. EPP is headquartered in the United States with an office in Kenya.

EPP has established the P-REC Aggregation Facility (PAF) through the Global Innovation Lab for Climate Finance to issue Peace Renewable Energy Certificates (P-RECs) from renewable energy projects in fragile, energy poor countries. Renewable Energy Certificates (RECs) are a contractual instrument designed to evidence and distinguish the generation of a quantity of renewable energy as all forms of electricity generation become "mixed" when electricity is fed into the grid. Each REC normally represents 1 MWh of renewable electricity generated. RECs are issued to reflect generation ex-post using strict criteria and standards. Electricity users can buy and "retire" RECs to prove that they have consumed renewable energy. Governments, utilities, companies and individuals purchase RECs in order to meet mandatory or voluntary sustainability or social responsibility goals. RECs have traditionally been used by corporates and energy companies in the US, Europe and Australia to evidence the production or consumption of renewable energy. In the US, demand is primarily driven by state-level renewable and clean energy standards, with the market valued at $11.45 billion in 2021 and forecast to increase to $26.5 billion by 2030, with two thirds of demand driven by compliance requirements. The US voluntary REC market was valued at $1.9 billion in 2023 and projected to rise by $6.4 billion by 2030

Peace Renewable Energy Certificates (P-RECs) are premium, high-quality RECs with unique socio-economic co-benefits issued from qualifying projects in target countries characterized by high risk of conflict, high vulnerability to climate change and low levels of electrification. P-RECs are created by Energy Peace Partners who are the authorized independent issuer by the International REC (I-REC) Standard Foundation. The P-RECs are then sold internationally to buyers interested in supporting high impact, climate-smart projects, resulting in an additional premium-priced hard currency revenue stream for developers and projects. PAF will develop demand for P-REC purchases and use P-REC sales revenues that it generates to provide upfront capital to developers through pre-payments. It will buy P-RECs through advance payments so that revenues can be used in project finance, while aggregating and reselling P-RECs in voluntary renewable energy markets.

PAF targets renewable energy projects in 13 fragile states in Sub-Saharan Africa that are at greatest risk of conflict, most vulnerable to climate change and with the lowest levels of electrification. PAF targets SDG 7 (Affordable clean energy) and 13 (climate action) which support a wide range of SDG-related outcomes under SDGs 1, 2, 3, 4, 5, 6, 8, 9, 10, 11, all with the objective of improving peace outcomes.

The P-REC eligibility criteria includes

- Location in an eligible geography as determined by EPP and typically defined as a country, or region within a country, characterized by comparatively high risk of conflict, high level of climate vulnerability and low level of electrification
- Power generation from acceptable renewable energy sources, including but not limited to solar, wind, hydropower, and biomass;
- Demonstrable improvement in access to energy by being a new project or project expansion;
- Demonstrable contribution to positive outcomes that support environmental and socio-economic development;
- Permitting and compliance to local and international level regulations;
- P-REC sales revenue must fund one of the two following project models: Catalytic capital (underwrites financing for the upfront cost of the project), or Community impact (funds a separate community project)

1.2 Management of PAF

PAF will be managed by Camco and Energy Peace Partners Advisory Services, a division of Energy Peace Partners (EPP). Camco is a climate and impact fund manager, leading the clean energy transition in emerging markets, and has an extensive track record investing in renewable energy, Africa, and tradable environmental instruments. EPP are experts in peacebuilding, renewable energy, and climate security with a mission to support renewable energy in fragile states.

1.3 Geographical Focus

PAF will initially originate in Burundi, Chad, Democratic Republic of Congo, Ethiopia, Nigeria, Sierra Leone, Somalia, South Sudan and Uganda and then expand to include Central African Republic, Liberia, Mali, and Sudan. The countries are prioritized based on size of opportunity, ease of access, and impact potential. The target countries have estimated a combined $179 Billion investment requirement to meet renewable energy targets in their Nationally Determined Contributions (NDCs).

1.4 E&S Categorization and Due Diligence

The project’s proposed activities and their associated environmental and social risks, host-country legal and institutional framework, and the Bank's Integrated Safeguards System (ISS, 2023) are critical in determining the project's E&S categorization.

As outlined in PAF’s E&S Policy, the nature and scale of the proposed investments includes solar mini-grids and hydropower schemes with a capacity not exceeding 5 megawatts. Environmental risks associated with the construction and operation of mini-grids, solar PV and hydropower schemes include: Land use changes and habitat loss during the construction of solar mini-grids and hydropower infrastructure; Disruption of aquatic ecosystems downstream of hydropower schemes, potentially interfering with fish migration; Alterations in water flow and sediment transport, impacting invertebrate populations and overall river health post-construction; Local soil degradation and contamination from inadequate management of hazardous substances at construction sites; Potential environmental pollution from improper disposal of lead-acid batteries commonly used in mini-grids, and e-waste generation from decommissioned equipment like solar panels; Occupational health and safety risks for workers during construction activities, including working at heights and use of machinery; and Electrical safety hazards during operation and maintenance of mini-grids and hydropower schemes.

Social risks associated with proposed project activities include: labor-related risks such as sexual exploitation, abuse and Harassment (SEAH) and gender based violence (GBV); risk of destruction or degradation of cultural heritage sites in project areas due to construction activities; Challenges related to land acquisition and potential displacement of communities for project implementation; Potential conflicts with local communities due to lack of transparency in land acquisition processes; Exacerbation of existing social inequalities through unequal distribution of benefits from the projects; Competition for water resources between hydropower schemes and other users like agriculture, leading to conflicts; Disruption of traditional livelihoods, particularly those reliant on selling kerosene or charcoal for lighting and cooking; and Community health and safety risks from transportation of construction materials, exposure to construction noise, dust, and exhaust emissions.

Based on the nature and scale of the proposed investments, the environmental and social risk classification of the Project is Category 2 – Moderate Risk.

2 Overview of PAF ESMS

PAF has adopted Camco's Environmental and Social Management Framework which includes an Environmental and Social Policy and E&S procedures to guide their due diligence and investment decisions. The Framework describes the E&S management system (ESMS) implemented by Camco as the Fund Manager to manage impacts and risks associated with the investments under its management, as well as describe how the arrangements are embedded into each fund's investment cycle. The ESMF requirements include:

- Carrying out due diligence on developers prior to inclusion to ensure compliance with the principles of the E&S policy;
- Ensuring that all legal permits, certifications and land agreements that are in place for renewable energy projects fulfil the required host country legal requirements (prior to PAF inclusion);
- Ensuring that developers establish and implement their ESMS and monitor the implementation of the ESMS prior to issuance of P-RECs; and
- Confirming that all information related to the E&S safeguards of project and programme activities are appropriately disclosed prior to issuance of P-RECs

The Framework seeks to mainstream E&S considerations early in the decision-making process to avoid, and where avoidance is impossible, mitigate adverse impacts to people and the environment within a reasonable time period, and give due consideration to vulnerable populations, groups and individuals, - those who are at a higher risk of being unable to anticipate, cope with, resist and/or recover from project-related risks and/or adverse impacts.

The Standards to be met by all activities financed by any fund managed by Camco, including PAF, shall meet the following standards:

- Host country environmental and labour legislation
- International Finance Corporation (IFC)'s Environmental and Social Performance Standards

- Sustainability principles advocated by the United Nations (UN) Global Compact
- UN Guiding Principles on Business and Human Rights
- Green Climate Fund (GCF)'s Revised Environmental and Social Policy
- GCF Indigenous Peoples Policy
- International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work
- ILO Basic Terms and Conditions of Employment
- International Bill of Human Rights
- UN Declaration on the Rights of Indigenous Peoples,
- Sustainable Finance Directive Regulation (EU) (2019/2088).

At the Fund level, additional standards or restrictions may apply. These are identified in the Fund Investment Policy or equivalent.

3 Review of Camco / PAF ESMS by AfDB

AfDB conducted a preparation Mission in June 2024 during which the Bank reviewed an initial Draft ESMS shared by Camco for PAF. At the time, the legal structure of PAF had not been defined and E&S risk management responsibilities between EPP Advisory Services and Camco had also not been defined. The Draft was therefore deficient on key aspects such as an approved E&S policy, provisions for the necessary organizational capacity and competency, and a budget to implement E&S measures. The Bank was later advised that Camco would instead provide their ESMS for review, as it would be what is applicable for PAF. Camco shared their draft ESMS for the Bank's review, which highlighted several gaps including:

- The E&S Policy was still in draft form and had not been signed by Camco's senior management;
- The ESMS lacked a clear organizational structure for E&S risk management and did not define the necessary organizational capacity, including the competence of the E&S risk manager/officer and the budget required for the E&S risk management function, and
- The ESMS also did not clearly outline mechanisms for monitoring and internal/external reporting on E&S risks.

Two subsequent revisions of the ESMS were submitted by Camco, which included an approved E&S policy, organization capacity for management of E&S risks, and mechanisms for monitoring of E&S performance. Due to its commitment to other stakeholders, Camco simultaneously submitted to the Bank and disclosed the last version of the ESMS on their website.

3.1 Status of Compliance

The ESMS has been reviewed against the 4 main pillars of an ESMS and the status is presented below.

i) **High-level E&S policy statement approved by senior management**. The ESMS includes an approved E&S Policy, approved by the Camco Board of Directors on 23rd October 2024.

ii) **Existing E&S management procedures for identifying and managing E&S risks in projects**. The ESMS includes procedures for E&S screening, identification, and categorization of E&S risks, an exclusion list, and guidelines for development of various E&S management plans on labor, occupational and community health and safety, biodiversity, land acquisition and resettlement, Emergency Preparedness and Response, supply chain procurement, pollution prevention, and stakeholder engagement.

iii) **Institutional capacity:** The ESMS has defined the organization structure for management of E&S aspects, and assigned E&S responsibilities to the Impact Team which consists of the Head of Impact and the Impact Manager and/or Associate. The ESMS however does not define how this function will be funded adequately throughout operations

iv) **Environmental and Social Governance (ESG) of the Organization**: The ESMS establishes mechanisms for monitoring of E&S performance, management of grievances, E&S information disclosure, and external communication.

3.2 Conclusion and Recommendations

An assessment of Camco/PAF's ESMS concludes that it is **Acceptable** as it largely addresses the above four pillars. However, a few areas have been identified for improvement. These include:

- Ensuring that the ESMS clearly defines how the E&S function will be financed throughout operations
- Ensuring that PAF's Funding Policy includes a clear requirement to comply with AfDB's Integrated Safeguards System, particularly Environmental and Social Operational Safeguard 9 - Financial Intermediaries

4 Environmental and Social Action Plan (ESAP)

Measures	Responsibility	Timeline
1. Define how the E&S function will be financed throughout operations	Camco	Before the first disbursement
2. Provide a clear requirement in the Funding Policy to comply with AfDB's Integrated Safeguards System, particularly Environmental and Social Operational Safeguard 9 - Financial Intermediaries	Camco	Before the first disbursement