Ministry of Foreign Affairs – (Department for Multilateral Cooperation and Climate Change, MKL)

Meeting in the Council for Development Policy 29 October 2019

Agenda item 3

1. Overall purpose	For discussion and recommendation to the Minister
2. Title:	Replenishment of Sustainable Energy Fund for Africa (SEFA)
3. Presentation for Programme Committee:	7 December 2018

Sustainable Energy Fund for Africa (SEFA) 2

Key results:

-SEFA 1 projects are expected to lead to 600 megawatt of renewable energy generation capacity, providing access to energy for 1.6 million people, with a reduction of 12 million tons of CO_2 equivalents.

SEFA has been crucial in addressing a market gap for financing of early-stage preparation of sustainable energy projects.

- SEFA has retained its relevance in a changing markets by remaining focused on less well-established renewable energy technologies and riskier and fragile country contexts as well as the off-grid and green mini grid space.
- SEFA has been a key vehicle for Danish influence in encouraging the Bank to become a transformative actor for achieving inclusive and green growth.

Justification for support

-SEFA 2 will contribute to low carbon development and increasing access to electricity through the deployment of renewable energy in Africa.

- SEFA 2 is expected to contribute to increasing the share of renewable energy in the African energy mix from 17% (2019) to 49% (2030). SEFA 2 is also expected to give 7.5 million people access to new electricity connections by 2030.
- SEFA will leverage private investments in renewable energy in Africa by providing financing for design and preparation of bankable projects, investment capital for sustainable energy projects and technical assistance.
- Compared to other facilities SEFA is unique both in its approach to providing direct support to developers and in terms of its focus on early stage and first of a kind private sector projects and in its preferential focus on fragile states.

Major risk and challenges:

-The business environment in partner countries may not facilitate renewable energy and energy efficiency deployment.

- Implementation can be effected by political instability or unrest in the fragile context in which SEFA operates.
- Public sector constraints in RMCs and limited capacity of partners can negatively affect implementation of projects.

File No.	2018-24492					
Continent	Africa					
Responsible Unit	Department of Multilateral Cooperation and Climate Change					
Sector	Climate and Energy					
Partner	The African Development Bank (AfDB)					
DKK mill.	**2019**	**2020**	**2021**	**2022**	**2023**	**Tot.**
Commitment	235	65				300
Projected ann. disb.		200	100			300
Duration	2020-2030 (10 years)					
Previous grants	DKK 300 M. since 2011					
Finance Act code	06.34.01.70 Klimapuljen					
Head of unit	Henriette Ellermann-Kingombe					
Desk officer	Rose Marie Arvid Larsen					
Reviewed by CFO	Kasper Thede Anderskov					

Relevant SDGs *[Maximum 5 – highlight with grey]*

No Poverty	No Hunger	Good Health, Wellbeing	Quality Education	Gender Equality	Clean Water, Sanitation
Affordable Clean Energy	Decent Jobs, Econ. Growth	Industry, Innovation, Infrastructure	Reduced Inequalities	Sustainable Cities, Communities	Responsible Consumption & Production
Climate Action	Life below Water	Life on Land	Peace & Justice, strong Inst.	Partnerships for Goals	

Strategic objectives:

The objective of SEFA is to contribute to universal access to sustainable, reliable, and affordable energy services and reduce GHG emissions stemming from the energy sector.

Justification for choice of partner:

AfDB was chosen for its mandate and systemic role in supporting sustainable energy development in Africa. AfDB is a trusted partner for Danish development cooperation in Africa, including the ongoing first phase of SEFA. SEFA operates in a context with many multilateral and bilateral development partners involved in supporting sustainable energy solutions in Africa. As the Africa regional hub within the Sustainable Energy for All architecture, AfDB is well placed to promote synergies and complementarity while avoiding the risk of overlap with other initiative

Summary:

SEFA is a Multi Donor Trust Fund in the African Development Bank supporting sustainable energy solutions on the Continent. SEFA 2 will initially focus on three areas of intervention to scale-up investments in early stage markets and adapt to the needs of the emerging energy landscape: Green Mini Grids, Green Baseload and Energy Efficiency. SEFA will deploy resources through two financing windows: The technical assistance window, which will provide support for project preparation and enabling environment and the concessional investment window, which will provide catalytic risk capital and viability gap financing through the deployment of investment grants, intermediated junior equity, and concessional debt.

Budget:

Denmark plan to make a commitment of DKK 235 M this year and further commit DKK 65 M next year. Denmark plan to disburse the funds at the start of the project-period, to front-load SEFA special fund and secure minimum capital backing for SEFA to prepare its interventions and to bring them to scale.

Abbreviations list

ADF	African Development Fund
AEEP	Africa-EU Energy Partnership
AfDB	African Development Bank Group
AREF	Africa Renewable Energy Fund
BoD	Board of Directors
CIF	Climate Investment Funds
CTCN	Climate Technology Centre and Network
DEPP	DEA Energy Partnership Programme
DFI	Development Financing Institutions
ECREEE	ECOWAS Centre for Renewable Energy and Energy Efficiency
EE	Energy Efficiency
ERI	Electricity Regulatory Index
ESAP	Environmental and Social Assessment
ESMAP	World Bank Energy Sector Management Assistance Program
EUDP	The Danish Development and Demonstration Programme for Energy Technology
FEI	Facility for Energy Inclusion
GBL	Green baseload
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas
GMG	Green Mini-Grid
GW	Gigawatt
IEA	International Energy Agency
IFU	Investment Fund for Developing Countries
INDC	Intended Nationally Determined Contributions
JfYA	Jobs for Youth in Africa
MDP	Market Development Programme
MW	Megawatt
NDC	Nationally Determined Contributions
NDE	National Designated Entities
NDEA	New Deal on Energy for Africa
NSO	Non-sovereign Operations
OC	Oversight Committee
P4G	Partnership for Green Growth and the Global Goals
PAP	Process Action Plan
PECG	Climate Change and Green Growth Department
PEVP	President of Energy, Climate and Green Growth Complex
PPF	Project Preparation Facility
PPG	Project Preparatory Grants
PSF	Project Support Facility
RBF	Results-Based Finance
RE	Renewable energy
RMC	Regional Member Country
SDG	Sustainable Development Goal
SEFA	Sustainable Energy Fund Africa
SMART	Specific, Measurable, Achievable, Relevant and Timely
SSA	Sub-Saharan Africa
SWOT	Strengths, Weaknesses, Opportunities and Threats
TA	Technical Assistance
TNA	Technology Needs Assessment
ToC	Theory of Change
TRC	Technical Review Committee
TW	Terawatt= 1000 GW
YEI	Youth Entrepreneurship and Innovation

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1. Introduction

This Project Document presents the rationale and justification, the objectives, expected outcomes and impact as well as the management arrangements for the allocation of DKK 300 million over three years from the Danish Climate Envelope to the second phase of the Sustainable Energy Fund for Africa (SEFA). This contribution is equal to the Danish contribution for the first phase of SEFA.

The Sustainable Energy Fund for Africa (SEFA) is a multi-donor trust fund within the African Development Bank (AfDB). The objective of SEFA is to contribute to universal access to sustainable, reliable, and affordable energy services and reduce greenhouse gas (GHG) emissions stemming from the energy sector. SEFA has achieved good results during its first phase and AfDB is preparing for a new 10-year phase in cooperation with the current donors to SEFA. This new SEFA 2 is set to be implemented from 2020. In the second phase, SEFA is set to be restructured into a special fund to accommodate AfDB's wish to be able to work with more financial instruments.

Denmark is the largest donor of SEFA, with the support of USD 43.5 million in 2011. SEFA is also funded by USAID's Power Africa, the United Kingdom's Department for International Development (DFID), the Government of Italy, the Norwegian Agency for Development Cooperation (NORAD), and the Government of Spain. Accumulated contributions amount to USD 109 million, making SEFA the largest trust fund in the AfDB.

2. Brief summary of issues to be addressed and institutional context

2.1 Issues to be addressed

Over 640 million Africans have no access to electricity, corresponding to an electricity access rate of just over 40 percent, the lowest in the world. The New Deal on Energy for Africa (NDEA) is a partnership-driven effort led by the AfDB with the goal of achieving universal access to energy in Africa by 2025. NDEA is aiming to achieve 162 GW new electricity generation, 130 million new grid connected households and 75 million new off-grid household connections. To achieve this goal, the AfDB is working with governments, the private sector, and bilateral and multilateral energy sector initiatives to develop a platform for public-private transformative partnerships for innovative financing in Africa's energy sector. SEFA is a clear example of this effort[1].

Africa is the continent that contributes the least to global warming in both absolute and per capita terms and accounts for the smallest share of GHG at around 3.8 %. Yet, Africa is one of the region's most vulnerable to climate change. Rapid economic growth, demographic developments and urbanization trends will all contribute to increase Africa's emissions of GHG. But mitigating actions can be taken, such as the adoption of renewable-based power generation and end-use efficiency improvements[2], to minimize emissions. However, only 4% of global climate finance is invested in Africa, which is inadequate to implement the mitigation and adaptation efforts that is needed[3]. This baseline is exacerbated by poor investment climate. International cooperation is therefore key to help fill the climate financing gap in Africa.

2.2 Institutional context:

SEFA provides financing for design and preparation of bankable projects, investment capital for small and medium sized sustainable energy projects, and technical assistance (TA) and capacity building to enhance the enabling environment for green energy. SEFA is intended to leverage and engage the AfDB

[1] New Deal Energy for Africa (2016), AfDB.
[2] https://www.brookings.edu/wp-content/uploads/2016/08/global_20160818_cop21_africa.pdf
[3] Global Climate Finance- An Updated View 2018, (2018), Climate Policy Initiative.

and other financiers in small and medium scale RE projects in the stage immediately before RE technologies become competitive. SEFA prioritizes first-of-their-kind projects in African markets by taking on early stage risks, thereby enabling investment by more risk-averse investors. In this way, it plays a key role in demonstrating the viability of such business models in the African context.

Of the 42 trust funds and thematic/special funds hosted by the AfDB, SEFA is the largest, and the only one that focuses on RE and energy efficiency (EE). In terms of both scale and focus, SEFA represents an instrument to achieve NDEA targets. SEFA is one of the few Pan-African RE initiatives, which enhances cooperation and ownership, ultimately delivering projects that support NDEA and its goals of bringing projects to bankability and creating an enabling environment to catalyse private investments in RE.

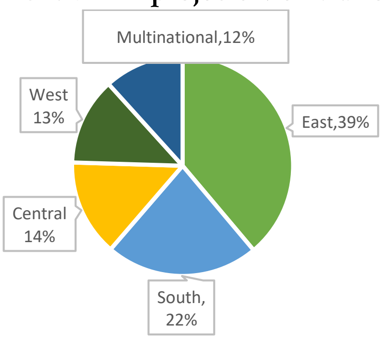
3. Strategic consideration and justification:

3.1. SEFA performance

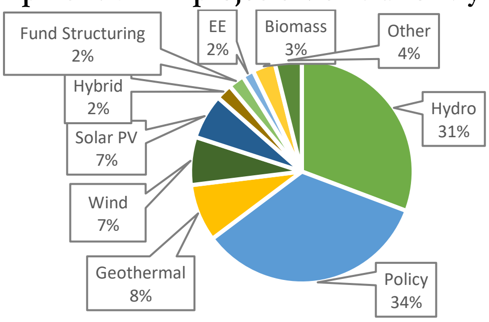
Since its launch in 2012, SEFA has committed USD 74 million (84% of resources) to 51 projects in 30 countries, including 9 multinational projects (graphic 1). The projects range from investments in both mature technologies and innovative technologies (graphic 2) and are expected to lead to 250,000 new connections providing access to about 1.6 million people, and 600 megawatt (MW) of RE generation capacity, with an equivalent reduction of 12 million tons of CO2[4]. SEFA interventions have often been complementary to AfDB operations and some of the most mature projects have been included in AfDB's operational pipeline[5]. SEFA has also been spearheading AfDB's engagement in green mini-grids (GMG), both through the Market Development Programme (MDP)[6] and country-focused enabling environment support.[7]

One example of a SEFA project leading to additionality is the solar project in Chad. Initially the AfDB private sector group were approached by the project developers for finance. At the time, however, the AfDB rejected the project as being too early stage. SEFA then entered and supported the project via a project preparation grant and subsequently in the run up to financial close the AfDB was approached again and is now ready to commit lending funds.

Graphic 1: SEFA projects distribution by region



Graphic 2: SEFA projects distribution by technology



[4] Sustainable Energy Fund for Africa: Conversion to a Special Fund and Scale Up (2019).

[5] Examples include Achwa I and II hydropower projects in Uganda, and the Corbetti Geothermal project in Ethiopia.

[6] The MDP has provided quick response to policy makers and regulators, and supported 79 African developers and 700 entrepreneurs in improving their energy business in the GMG and productive-use subsector, and contributed to 2,800 new connections providing sustainable energy access to about 17,000 people.

[7] Examples include Burkina Faso, the Democratic Republic of Congo, and Nigeria – which have recently developed GMG programs with AfDB's support and leveraging co-financing from the Green Climate Fund.

Of the USD 74 million committed, almost USD 46 million has been disbursed or invested since 2012, achieving a cumulative disbursement rate of 54%. There has been a steady increase in disbursements over time, mainly from the equity investment window. The Project Preparation and Enabling Environment window disbursements are picking up since many projects have now completed the procurement processes.[8]

For more detailed results overview see the SEFA 1 results log framework in annex 10.

3.2. Key lessons learned from SEFA 1

What has worked well: SEFA has influenced AfDB's energy sector priorities towards sustainable, privately-led RE solutions, particularly in smaller scale and off-grid contexts. Further, SEFA has been crucial in addressing a major market gap for financing of early-stage project preparation. SEFA has focused on less well established RE technologies and riskier and fragile country contexts as well as the off-grid and green mini-grid space. In this way, SEFA has retained its relevance in a changing market dominated by falling costs of the most popular technologies such as solar PV.

What has not worked so well: The SEFA 1 results framework and theory of change has proven inadequate for a facility of this magnitude. In particular, it has lacked outcome indicators for enabling environment grants, indicators to track progress toward financial close, indicators for installed capacity under equity investments, and indicators for energy savings through EE. These issues are being addressed in SEFA 2. Further, there has been an under-representation of EE projects in the portfolio and pipeline. These issues are being addressed in SEFA 2.

3.3. Justification of support

The Danish allocation is provided to support the ten year second phase of SEFA, contributing to reaching the targets set out in the results framework (annex 4).

SEFA has distinguished itself with regards to its focus on innovative technologies in small/medium scale projects. Funds of a similar size and scope usually tend to focus on more conventional, commercially-proven technological applications[9]. Additionally, SEFA has demonstrated relevance within the sustainable energy landscape. SEFA has oriented its project portfolio to address specific gaps in the RE project preparation architecture. SEFA's objectives have, since its inception, promoted both RE and EE, which is the case for only half of all energy initiatives according to the AEEP report, while nearly all African countries have included EE measures in their INDCs. Consequently, SEFA has demonstrated its alignment with the SEforAll objective to double the global rate of improvement in EE.

In terms of country breakdown, SEFA has overall had an evenly spread distribution among African countries as 30 countries benefit from SEFA support[10]. SEFA's approach has tended to focus on fragile states (accounting for 21 out of 51 projects approved), hence SEFA is filling a crucial gap for countries that would otherwise have no access to project preparation facility support.

Through its focus on less-well established technologies and riskier country contexts SEFA has further been able to leverage and engage AfDB and other financiers in small and medium scale RE projects.

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[8] Sustainable Energy Fund for Africa: Conversion to a Special Fund and Scale Up (2019)

[9] External Review of the Sustainable Energy Fund for Africa, Draft Final Report (2018)

[10] More than half of SEFA recipient countries have had one project approved. Tanzania has three projects while the Democratic Republic of the Congo, Ethiopia, Mozambique, Tanzania, Cameroon, Chad and Kenya have all had 2 approved projects each. Multi-country projects account for the largest share with 8 projects followed by Uganda with 6 projects approved. Similarly, the breakdown by regional block shows an even distribution of SEFA's portfolio across regions, with a slightly largest share for Eastern Africa which is explained by the inclusion of Uganda in this region (6 projects).

There are only a few other facilities globally providing similar instruments; the Climate Investment Funds (CIFs), the Global Environment Facility (GEF) and the Green Climate Fund (GCF). However, there are challenges in accessing these pools. Donors to the CIFs have yet to decide on their future operations; the GEF focuses mainly on environment and provides relatively small non-grant contributions which are shared across several climate priorities; and the GCF is experiencing various challenges also related to processing and deploying the funds quickly. Furthermore, GCF typically lends itself to larger programs and projects, and operates through intermediary, accredited entities[11].

By comparison, SEFA provides direct support to developers and focusses on early stage and first of a kind private sector projects. More specifically, SEFA concessional investments are (i) focused entirely on RE and EE; (ii) focused entirely on Africa; and (iii) focused on leveraging finance to less-well established technologies and riskier country contexts.

3.4. Alignment with Danish development strategy

SEFA is aligned with Denmark's strategy for development cooperation and humanitarian action as defined in World 2030. SEFA contributes to promoting inclusive sustainable growth[12], by catalysing private sector investment in RE. The Danish strategy furthermore recognises that official development assistance (ODA) can only play a minor role in achieving the SDGs and that ODA therefore needs to serve as a catalyst for leveraging and mobilising domestic resources and private funds. The purpose of SEFA is to do just that and with a focus on fragile states, where leveraging private funds is the most challenging.

SEFA's activities are also well aligned with priorities for funding under the Danish Climate Envelope. Especially regarding the outcome of scaling up climate-relevant technologies, infrastructure and markets.

SEFA contributes to several of the UN sustainable development goals (SDGs) to which Denmark subscribes. SEFA contributes to SDG 7 (sustainable energy) and SDG 13 (climate change). Access to modern energy is important for development. For example, women and children are often disproportionately affected by the lack of access to energy, in that their time and labour must typically fill the gaps, by e.g. gathering biomass for cooking, manually processing grain or other food in the absence of machines. One benefit of increased access to electricity is that it gives women, children and male household members more time to spend on education and income generating activities contributing to gender equality. Hence, SEFA offers potential benefits across a number of SDGs, notably those linked to poverty (SDG 1), gender equality (SDG 5), and employment and economic growth (SDG 8).

4. Theory of Change and key assumptions

The graphic illustration of the theory of change is shown in graphic 3. The narrative ToC is elaborated below.

<u>What are the changes that SEFA wants to contribute to?</u> SEFA will contribute to low carbon development and increasing access to energy consistent with SDG 7 and SDG 13, as well as to implementing NDCs and the Paris Agreement.

<u>How will the change happen in the specific context?</u> SEFA will focus on developing bankable RE and EE projects to displace existing and planned fossil fuel generation plants with an emphasis on early stage and risky markets. SEFA will also focus on supporting and catalysing new technologies to increase the penetration of RE and improve the energy mix. Through its GMG program, SEFA will support scaling up of innovative business models and smart technologies. In this way, SEFA will contribute directly to

[11] External Review of the Sustainable Energy Fund for Africa, Draft Final Report (2018).
[12] The World 2030 (2017), chapter 6.

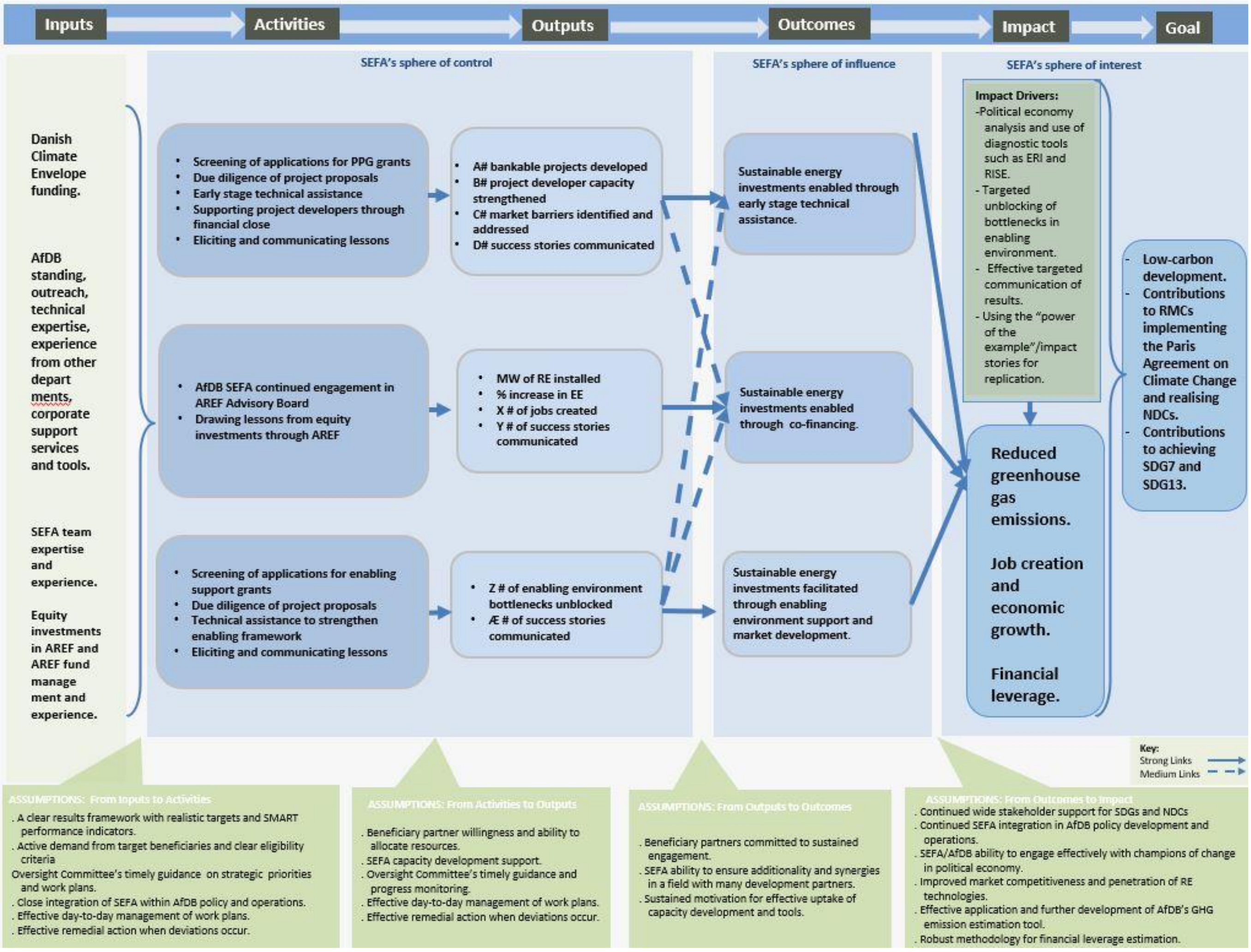
increasing access to energy. SEFA will support three strategic programs comprising green baseload (GBL), GMG and EE. SEFA's outputs across the three strategic programs are to (i) provide catalytic risk finance through its blended finance window, (ii) develop and structure bankable projects ready to attract financiers, and (iii) build capacity by providing advisory services as part of project preparation.

<u>What is the role of the key project partner?</u> The key project partner is AfDB and the key beneficiaries are regional member countries, private enterprises, public sector agents, private project developers, and public institutions. Through the SEFA Secretariat, the AfDB issues calls for proposals and manages the technical review process for submitted proposals. As Trustee, AfDB receives funds and is in charge of coordination of disbursements. AfDB is also responsible for the project implementation for specific projects, which includes providing TA and supporting project developers.

<u>What are the assumptions that must be realised before the goal is achieved?</u>
SEFA has in its first stage demonstrated its ability to help implementing partners address key challenges and opportunities at the preparatory stages of RE interventions, which has been key to securing an effective implementation. The assumptions for continued effective implementation are:

- Continued stakeholder support for SDG's and nationally determined contributions (NDC).
- Continued SEFA integration in AfDB policy development and operations.
- SEFA/AfDB's ability to engage effectively with champions of change in the political economy.
- Improved market competitiveness and penetration of RE technologies.
- Effective application and further development of AfDB's GHG emission estimation tool.
- Robust methodology for financial leverage estimation.
- Effective methodology and tools for emission reduction assessment and for tracking progress toward achieving SDGs.

Crosscutting concerns: Gender, youth, and fragility are the cross- cutting issues for SEFA. In November 2014, AfDB issued instructions to all units concerning gender-mainstreaming emphasising the requirement of monitoring and reviewing performance on the promotion of gender equality for all Bank financed projects. In line with this, SEFA strongly emphasises gender aspects by implementing gender assessment and analysis; participatory consultative processes balancing gender realities; modalities for enhancing gender benefits and minimizing gender risks; and impact indicators for SEFA projects including direct and indirect employment with breakdown by gender. Furthermore, the bank is integrating a youth focus across operations to meet its goal of creating 25 million jobs and equipping 50 million youth with employable and entrepreneurial skills by 2025. SEFA will contribute to meeting this goal by integrating this youth focus. SEFA also has a focus on fragile states, filling a crucial gap for countries that would otherwise have no access to project preparation facility support.



5. Thematic programme summary

5.1. Rationale for restructuring SEFA into a special fund

The second phase of SEFA will see SEFA restructured into a special fund to widen the suite of financial instruments.

The AfDB team presented the proposal for the restructuring and replenishing of SEFA in mid-2018. The AfDB proposal for SEFA 2 has been based on lessons learned from SEFA 1, which includes an external review of SEFA from 2018. Further, the preparation process has drawn on AfDB's extensive experience from its ordinary operations in the energy sector, and has been informed by the AfDB knowledge work and studies as well as by knowledge work from other international partners on the renewable energy sector, including GMG.

The MFA undertook a mid-term review (MTR) of SEFA in 2016, which identified a number of shortcomings and made recommendations for how to address them. A MFA review/pre-appraisal in July 2018 confirmed that the SEFA Secretariat had followed up on the recommendations from the previous review and further recommended that Denmark should positively consider the request from AfDB to replenish SEFA.

The special fund structure will allow SEFA to operate with financial instruments beyond grants without having to seek the Board for a waiver from the trust fund policy on each investment project[13].

The special fund structure provides SEFA with the financial instruments required to contribute to meeting the growing demand for catalytic finance and technical support to scale-up sustainable energy solutions in Africa. It allows SEFA to adapt to a new RE landscape, which has transformed both globally and in many African markets since the establishment of SEFA 1 in 2011. New business models have emerged, some hitherto marginal RE sources have become mainstream, private sector participation is more active, and financing for medium sized projects is more widely available. However, projects continue to stall because of a lack of readiness, high risk in early stage development, and viability gaps.

Under the current arrangements, SEFA is unable to sufficiently address market gaps identified in early stage energy project development, especially for new technologies and business models. The restructuring of SEFA is required to enable the provision of financial instruments beyond grants, enabling SEFA to enhance its impact through the provision of more flexible and diverse financing instruments and structured co-financing arrangements.

5.2. Objective, programmatic themes and financing windows for SEFA 2

The objective of SEFA is to contribute to universal access to sustainable, reliable, and affordable energy services and reduce GHG emissions stemming from the energy sector.

SEFA 2 will initially be focused on three areas of intervention to scale-up investments in early stage markets to adapt to the needs of the emerging energy landscape:[14]

1. Green Mini-Grids: SEFA will support the scale-up of GMG investments by increasingly focusing on country programmatic approaches across the public and private sectors. SEFA will continue providing TA and upstream enabling environment support as well as concessional investments in order to mitigate key project risks and address commercial viability gaps. The MDP will be scaled up to be able to continue to respond to developers and policy makers needs alongside AfDB and SEFA supported country GMG programs.
2. Green Baseload: Through GBL, SEFA will support the scale up of renewable energy to displace or reduce the use of high-emitting fossil fuel generation (notably coal, HFO and diesel-fired generation). The overall concept of GBL is to increase penetration of renewable power in the African grids, through a combination of interventions encompassing generation, transmission and distribution. It will prioritize countries with high fossil fuel dependence, where least cost intermittent renewable energy has high potential. The program will support the deployment of renewable sources by providing (i) TA for optimization, integrated resource planning and project preparation, (ii) blended project finance and risk mitigation, and (iii) capacity-building in new technologies. The program will complement other climate finance funds and private sector funds in the RE space, creating new pipeline opportunities. SEFA will seek high risk, high impact opportunities to support technologies that have the potential to displace fossil fuels. The program will expand SEFA's existing work in project preparation and enabling environment support.
3. Energy Efficiency: SEFA will mature EE markets and support local financial institutions to develop new business lines in EE. Specifically, it will remove market barriers, support project preparation for energy services companies and assist financial intermediaries to open up or expand thematic business lines. Among other things, this work will prioritize fuel-switching, including clean cooking, and demand-side EE targeting public and private beneficiaries along with residential consumers. Instruments under SEFA's concessional investment window will be deployed to support the

[13] AfDB has yet to draft and present a policy paper on special funds in line with what exists on trust funds. Denmark will encourage the Bank to develop a policy and guidelines for its special fund instrument to ensure complete transparency around the policy of special funds in the AfDB going forward.

[14] Strategic priorities, including the programmatic themes described, will be reviewed and revised by SEFA on a periodic basis.

implementation of projects during the riskiest phases, with the intention of later leveraging finance from AfDB's private sector operations

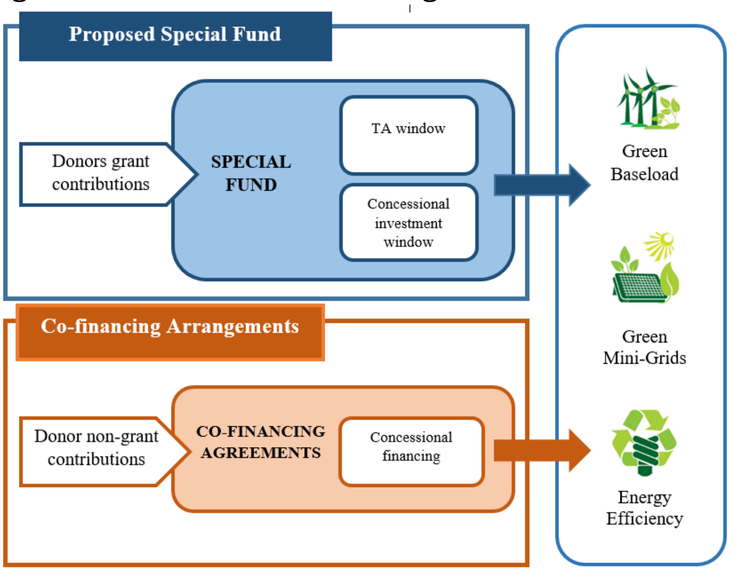
SEFA will deploy special fund resources through two financing windows (graphic 3)

1. The Technical Assistance window will continue to provide support for project preparation and enabling environment, but with an increased focus on activities that will directly unlock investments. Enabling environment activities, will therefore have a stronger focus on downstream activities, such as, the design and structuring of procurement schemes to assist national authorities in contracting new generation capacity.
2. The Concessional Investment window will provide catalytic risk capital and viability gap financing through the deployment of investment grants (including results-based financing and reimbursable grants), intermediated junior equity, and concessional lending. Concessional investments from SEFA will be "blended" with commercially-priced investments from other sources, including but not limited to AfDB statutory resources. AfDB defines blended finance as "an innovative financing mechanism combining ODA with additional commercial finance for development. Read more about the AfDB approach and guiding principles for blended finance in annex 11. Using ODA for concessional loans and equity investments to private sector projects can be perceived as an expensive way of deploying ODA. However, SEFA deploys the loans and equity investments in order to leverage finance and investments in RE that would not otherwise be leveraged.

SEFA may additionally mobilize and deploy concessional financing through separate co-financing arrangements. These will not be co-mingled with the special fund and will be governed by separate agreements. Further, donors providing loans will bear the financial risk. They will also not be mixed with special fund resources at project level, unless these are on same terms and following explicit authorization by the Special Fund contributors. The co-financing arrangement with thus not organisationally be a part of SEFA.

Graphic 3 shows the different funds managed by SEFA. Initially, SEFA proposed that the special fund would manage both donor grants and donor non-grants. However, this proposal raised concerns among the OC of possible cross-subsidy from the grant contributions to the non-grant donor loans. As a result, SEFA has modified the proposal so that donor-loans will be handled outside the SEFA special fund under separate agreements. The co-financing arrangement will thus not organisationally be a part of SEFA.

Graphic 3: **SEFA programmatic areas and financing windows**.



5.3. Summary of results frame and Danida results indicators:

The proposed allocation is made in support of SEFA's vision and mission and SEFA's results log frame 2020-2030 (annex 4). The results framework will serve as the framework for monitoring the performance of SEFA. Updates on progress on achievement of the logical framework will be presented in SEFA annual and semi-annual reports. Furthermore, project-level results measurement frameworks will feature indicators, baselines and targets that directly relate to the SEFA logical framework. Not all SEFA indicators will be relevant to every project, and additional project-level indicators may be justified by the project's context, but every effort should be made to ensure that project-level results can be captured into SEFA development impact reporting.

For Danida's reporting purposes the following key outcome and output indicators have been selected from the SEFA log-frame to document progress, this log-frame conform with the AfDB standard log-frame using standard sector indicators in line with NDEA, Power Africa, and SEforAll:

Project title		**Sustainable Energy Fund for Africa**	
Project objective		Contribute to universal access to sustainable, reliable and affordable energy services though early stage technical assistance, catalytic co-financing and support for the enabling environment.	
Impact Indicators		Cumulated energy mix in Africa (% of installed MW from renewable energy technology)	
Baseline	Year	2013	17 % (REmap 2030, IRENA)
Target	Year	2030	49 % (REmap 2030, IRENA)

Outcome		Catalyse finance for renewable energy and energy efficiency	
Outcome indicator		Total volume of investment mobilized by SEFA commitments (USD million)	
Baseline	Year	2019	457
Target	Year	2025	1800
Target	Year	2030	3100

Outcome		Increase access to sustainable energy	
Outcome indicators		People with new electricity connections (number of people)	
Baseline	Year	2019	9000
Annual target	Year 5	2025	3,300,000
Target	Year 10	2030	7,500,000

Outcome		Increase adoption of Renewable Energy	
Outcome indicators		Reduction of carbon emissions or emissions avoided (Tons of carbon dioxide equivalent -tCO2e)	
Baseline	Year	2019	-
Annual target	Year 5	2025	3,300,000
Target	Year 10	2030	5,500,000

Outcome		Increase energy savings	
Output indicator		Energy savings from new investments (MWh/year)	
Baseline	Year	2019	0
Annual target	Year 5	2025	730,000
Target	Year 10	2030	1,350,000

Output		Promoting and delivering sustainable energy solutions through more investments	
Output indicator		Technical assistance to support project/programs across the three thematic areas	
Baseline	Year	2019	0

Annual target	Year 5	2025	24
Target	Year 10	2030	40

Output		Promoting and delivering sustainable energy solutions through more investments	
Output indicator		Finance committed by SEFA (USD million) across the three thematic areas	
Baseline	Year	2019	0
Annual target	Year 5	2025	278
Target	Year 10	2030	463

Output		Promoting and delivering sustainable energy solutions through more investments	
Output indicator		Number of people trained across the three thematic areas of which (%) are women	
Baseline	Year	2019	0
Annual target	Year 5	2025	1572
Target	Year 10	2030	2620

5.4. Issues still to be addressed

There are still outstanding issues to be addressed before the conversion of SEFA into a special fund. Denmark will through its membership in the oversight committee (OC) work for that these issues are addressed sufficiently. Criteria for the distribution of funds between window 1 and 2 of SEFA and for donor earmarking to thematic windows needs to be clearly defined in the operational procedures. Denmark has together with Norway already provided a suggestion for these criteria. Further, to avoid double counting of results generated by SEFA projects, clear guidelines for reporting of results are to be defined in the operational procedures. It is also important to collect central financial, administrative and strategic information in one overall strategic document for SEFA including annual result targets for SEFA. Denmark will work for the inclusion of a three year preliminary rolling budget for SEFA operations in the strategic document. Finally, Denmark is together with Norway working on strengthen the voting rules for decisions being made in the OC.

6. Budget

The AfDB documents indicates a desired budget frame of USD 500 million to be raised from grant providing donors during the projected 10-year life span of the SEFA Special Fund. The 2020-2023 estimated investment budget for SEFA is presented in annex 5. When the work plan for the next fiscal year is finalized, the Technical Unit (TU) will prepare a budget, taking into account current human and technical resources and additional resources required to execute the proposed work plan. Co-financing fees generated by SEFA, as applicable, will be reflected in budgets as relevant. This amount is for both window 1 and window 2. Considering the combined lead time for project preparation and financial closure for a project, the ambition is to raise the amount within the first 3 – 4 years of SEFA Special Fund. The distribution between window 1 and window 2 will be decided by the OC, annually based on a previous year's execution and a proposed work programme for next year. The administrative fee for AfDB is 5% and will be defrayed from the total budget frame.

The SEFA 1 work plan and budget for 2019 also guides SEFA during the preparation phase for SEFA Special Fund. A work plan and budget for 2020 will prepared and presented to the Oversight Committee in November 2019. Until the process of converting SEFA to the Special Fund, SEFA 1 guidelines and procedures will continue guiding SEFA operations for budget and work plan preparation.

SEFA Special Fund will be financed through a) a roll-over of remaining funds from SEFA 1 and b) new grant contributions from current and new donors. The estimated balance from SEFA 1 is USD 25 M. The reflows from investments originate from funding approved for SEFA 1. While the modalities of use of funds under SEFA 2 are different, it is recommended to transfer remaining SEFA 1 funds to SEFA 2, as the objectives of using the funds remain substantially the same. Denmark and Norway are each preparing for a contribution of approx. USD 45 M. Spain has very recently signed onto the current MDTF with a contribution of an initial USD 4 M and indications of an additional contribution. Combined, this indicates a financial envelope of approx. USD 120 M from the outset of the special fund. The current donors to SEFA as well as Sweden have all indicated support to SEFA 2 albeit without concretizing the levels of financial support.

Denmark plan to make a commitment of DKK 235 M this year and further commit DKK 65 M next year. Denmark plan to disburse the funds at the start of the project-period, to front-load SEFA special fund and secure minimum capital backing for SEFA to prepare its interventions and to bring them to scale.

Institutional and management arrangements:

6.1. Governance Arrangements

The managerial home of SEFA is the Renewable Energy Department (PERN) of AfDB under the guidance of the Vice President for Power, Energy, Climate, and Green Growth Complex. Management and administration of the SEFA special fund will be as hitherto in accordance with AfDB policies, guidelines, and procedures. The SEFA operational procedures set the frame for the SEFA specific procedures.

SEFA's overall governance structure and approval processes build on the existing SEFA structure. The primary oversight body for the SEFA special fund will be the OC. Some investment decisions will require the approval of the AfDB Board of Directors (BoD), in line with AfDB policies and procedures.[15] A Technical Committee will be convened to review all SEFA transactions, making recommendations for approval to the OC and/or Board. The SEFA Technical Unit will administer SEFA on a day-to-day basis

Denmark can influence and monitor SEFA operations, strategy and priorities through our membership in the OC and through the Nordic-Indian constituency's representative on the BoD. The OC will be comprised of SEFA donors and contributors, and AfDB senior management, and will provide general oversight and strategic guidance for SEFA operations and priorities. The OC role is to establish the overall strategy and priorities of SEFA and approve the SEFA Technical Unit's work program and resourcing plans accordingly. In the banks current proposal for voting rules decisions in the OC shall be taken by consensus or by the vote of a simple majority of members where a consensus is unattainable. Furthermore, any decisions concerning modifications to the legal instrument and/or the operational procedures document shall be by consensus of all members. The BoD will provide general oversight through review and approval of SEFA's operations subject to pre-determined thresholds defined in the operational procedures. All concessional finance operations will be subject to BoD approval.

For TA window operations (including, but not limited to, grants and reimbursable grants), the following approval authorities will be used: less than or equal to USD 1 M grants will be approved by the Vice President of Energy, Climate and Green Growth Complex (PEVP); grants over USD 1 M will be cleared by the OC and recommended for approval by the AfDB BoD. For concessional investment window operations such as, but not limited to, results-based finance, loans and intermediated equity, the OC will

[15] Including but not limited to the AfDB NSO policy and policies governing key instruments, such as senior debt, subordinated/convertible debt and equity investments.

review and recommend for approval all transactions. The AfDB BoD will have ultimate approval over all non-grant transactions[16].

6.2. Communication on results:

It is important to adopt a strong and proactive approach to timely communication of results and impact stories and this is seen as an impact driver for the project. In annex 8 the plan for communication of results are summarised.

7. Financial Management Considerations

AfDB is a triple AAA rated financial institution by both Standard & Poor as well as Fitch rating agencies, indicating a financially sound institution with ability to pay back the debt and manage resources according to its mandate. It also implies an institution with policies and practices and a sound financial management system in place to ensure safeguarding of the institution's resources. AfDB has maintained its AAA rating for 15+ years.

The AfDB financial statements are subject to annual audits by an internationally recognised audit firm appointed by the BOD on 5-year contract. The auditor is selected through an open procurement process based on a set of comprehensive terms of reference. Unqualified auditor's opinion for the past historical period, indicating a sound financial management and safeguard system.

AfDB's procurement system is in line with internationally recognised best practice to ensure fair and equal opportunities in a transparent process. The Bank's system includes competitive procedures for procurement of goods, works, and services. The Bank's procurement system is the applicable standard for procurement using SEFA trust funds including beneficiary-executed procurement for all operations under the TA window. This requirement has been difficult for the private project developers to understand and has sometimes caused delays in project preparation. In order to overcome this challenge and avoid time-consuming dialogues with developers, SEFA will introduce a prequalification process of consultants/service providers and an advanced procurement process as allowed by the overall procurement policy framework.

In 2016/17 the EU conducted a so-called pillar assessment of AfDB to assess the Bank's financial management systems, including procurement and audit, to assess if the Bank's systems would provide the required level of safeguards for administration of EU funds, including blended finance instruments. The assessment rated AfDB as fit to administer EU funds, and subsequently an agreement was signed in 2017.

Management of funds for SEFA, including financial management and procurement is in accordance with the AfDB's administration and financial management procedures and SEFA is subject to AfDB's system of safeguards. SEFA has, as prescribed by AfDB trust fund procedures, been subject to annual financial audits by the external auditor of AfDB. Throughout, SEFA trust fund financial statements have received unqualified audit opinion.

AfDB introduced a system for assessing development outcome and additionality for its private sector investments (ADOA). It is an ex-ante assessment, which is required for each investment project, alongside the project appraisal and the credit risk assessment, to ensure that proposed projects provide value and deliver on development outcomes. The requirement for an ADOA assessment also applies to window 2 projects under SEFA Special Fund.

[16] Internal discussions as it relates to review and approval of reimbursable grants are still ongoing, and results will be reflected in the SEFA Operational Procedures.

AfDB has anti-corruption policy and procedures in place. The Integrity and Anti-Corruption Department monitors the adherence to the policy and procedures and has the mandate to carry out independent investigation into allegations of corruption and other sanctionable practices in all Bank operations, including trust funds. The department is independent from operations and reports directly to the BOD and the President of the Bank.

SEFA will administer, manage and report on the reflows from concessional investments, including loans, equity and reimbursable grants deployed from special fund resources. Reflows will flow back into the Special Fund and may be re-deployed for new projects.

External co-financing will be governed by separate co-financing agreements. These will follow the AfDB's existing templates and will be deployed on their own terms and conditions. The special fund and AfDB will not carry any financial risk associated with these co-financing arrangements[17].

8. Monitoring and reporting:

SEFA has an established monitoring and reporting system and will continue to monitor and track project performance. Project completion reports are required for all SEFA projects. SEFA beneficiaries are required to submit annual reports and audit reports until the implementation of the activities financed are finalized. AfDB's external auditor will undertake audits of SEFA's financial statements on an annual basis, duly supervised by the Financial Management Department of AfDB.

SEFA will provide annual and semi-annual reports to the OC. They will report on the overall portfolio with reference to the SEFA results measurement framework and highlight the risks and mitigation measures for the portfolio. A mid-term evaluation will be commissioned within 5 years of commencement of SEFA as a Special Fund. This evaluations will additionally provide recommendations for use of reflows and potential exit options.

9. Risk and mitigation measures

The AfDB Board document identifies the risks and outlines mitigation measures associated with SEFA Special Fund. SEFA Special Fund risk and mitigation measures will be in accordance with AfDB policies, guidelines, and procedures. Below are the main risks identified for SEFA special fund:

Contextual:

- SEFA has a focus on fragile states, therefore SEFA project has a risk of being effected by political instability or unrest, which potentially can affect implementation negatively. To mitigate this risk SEFA will carry out due diligence of funding request including environmental and social assessment procedures.
- There is a risk in that the enabling environment in partner countries does not facilitate RE and EE deployment. To respond to the risk SEFA will in its enabling environment support, focus on key bottlenecks identified in regional member countries (RMCs). More complex barriers could be addressed through coordinated intervention with AfDB or ADF.
- There is corruption risks in the countries where SEFA is operating. Therefore all SEFA projects will be subject to AfDB's Whistle Blowing and Complaints Handling Policy. If firms or individuals breach policy, including corrupt, fraudulent, collusive, coercive and obstructive practices, the AfDB will imposes relevant sanctions regulated in the AfDB's Sanctions Procedures.

Programmatic risk

- Public sector constraints in RMCs and limited capacity of local partners can negatively affect

[17] For avoidance of doubt, no co-financing agreement will be structured in a way that requires the special fund to bear the risk of default.

implementation of projects. To respond to this risk AfDB staff in regional and country offices should be engaged to provide close coordination with project implementation units and provide targeted development support for partners.

- There is a programmatic risk in selecting proposals aligned to SEFA objectives and priorities. SEFA has established an independent screening process with a track record of selecting project proposals that are aligned to the SEFA objectives and priorities. Initial screening takes place according to pre-determined criteria, and subsequently SEFA undertakes a due diligence process for proceeding with proposals alongside an investment officer or energy expert. Additionally, funding requests are cleared for pipeline by a Committee composed of Directors/Managers from the energy complex ("Management Committee"). Finally, SEFA leverages the AfDB checks and balances between operational and fiduciary departments for the approval process.

Financial risks

- The financial risks, including of defaults for concessional investments provided by SEFA Special Fund will be borne by SEFA alone. SEFA will manage this risk through a stringent due diligence process and with support from the Bank's credit risk team.
- Given the catalytic nature of SEFA concessional investments, the risk of default is expected to be above the levels faced by other debt and equity investors, even with mitigation measures in place.
- The financial risks under co-financing arrangements managed by AfDB/SEFA will be borne by the co-financing provider alone and with no recourse to the grant contributions to SEFA Special Fund.
- The lack of clear rules for special funds could create the impression with rating agencies, that the fiduciary risks associated with SEFA are not appropriately ring-fenced and could spill over to the Bank's risk bearing capital. Denmark will work with partners to insure that a policy and guidelines for Special Funds are developed by AfDB.

Institutional risk:

- There is an institutional risk in connection to SEFA staffing and continuity of operations. SEFA has largely operated with consultants, which is a key-risk for the continuity of operations as the one-year term of the contracts do not synchronize with the multi-year duration of the projects. SEFA is moving towards full-time long-term (multi-year) contracts (i.e. project staff) for key positions. Short-term consultants will continue to be deployed to meet specific capacity and skills constraints.
- SEFA risk crowding out rather than crowding in private finance and investment. This risk will be mitigated through the rigorous use of AfDB methodology on additional and blended finance.

9.1. Timeframe and duration

SEFA's legacy project portfolio will transition into the new SEFA structure and continue implementation in a "business as usual" manner. The equity investment in AREF is expected to start generating reflows to the SEFA account through the "divestment" period starting in 2020 and ending in 2024. Overall, any unspent amounts and reflows from the Multi-donor Fund shall be made available for new commitments under the Special Fund arrangement.

SEFA will commence operations as a Special Fund with new programs and financing windows upon Special Fund effectiveness, tentatively expected in the fourth quarter of 2019, The SF agreement is expected to have a duration of 10 years. This term can be extended with OC approval to enable SEFA to continue to operate and deliver on its mandate. Two main options could be explored prior to the expiry of the Special Fund's initial 10 year lifespan that provide exit routes to donors[18]: (i) phasing out SEFA and redeploying its capital elsewhere as agreed by donors; (ii) Phasing out SEFA and disbursing remaining funds to donors on a pro rata basis.

[18] In case they are not interested in receiving back whatever is outstanding from their contributions.

Annex 1 - Context Analysis

SEFA is demand-driven has an active portfolio. Several[19] SEFA projects are in fragile or conflict-affected countries. In principle, all the AfDB's 54 Regional Member Countries (RMCs[20]) are eligible for support under SEFA.

1. Overall development challenges, opportunities and risks
Key conclusions from the analyses consulted and their implications:
Key statistics on access to electricity in SSA and the AfDB New Deal • Electrification efforts in Sub-Saharan Africa surpassed population growth for the first time in 2014, and the number of people without electricity access has declined in subsequent years (IEA Global Energy Outlook 2017). • Yet, Sub-Saharan Africa (SSA) still has 590 million people without access to electricity – more than half of the global total. According to IEA's outlook, the number of people without access to electricity in SSA will remain at around today's levels in 2030. • Renewables, are playing a larger role in providing access, in part spurred by decentralised RE technologies. Of the 190 million who gain access by 2030, 68% do so via grid connections (of which two-thirds from renewables) and 32% from decentralised renewables. New business models making use of decentralised power generation technologies have considerable potential for both households and for productive uses, especially in rural and remote areas. • Energy sector bottlenecks and power shortages were estimated, by AfDB in its 2017 "New Deal" update, to cost Africa some 2 – 4% of GDP annually, undermining economic growth, employment creation and investment. • Africa is rich in energy resources, with well over 10 TW of solar potential, 350 GW of hydroelectric potential, 110 GW of wind potential and an additional 15 GW of geothermal potential. But the lack of sufficient innovative and appropriate financing, of bankable projects, of appropriate policy and regulatory environments, of pricing incentives and of coordination hamper progress. • The World Bank "Africa's Pulse" in its April 2018 analysis of issues shaping Africa's economic future concluded that the extension of the national power grid to remote and sparsely populated rural areas is costly and often has limited impact on economic development because many people can afford to pay only limited amounts for electricity. The extension of the national power grid to remote and sparsely populated rural areas is costly with mostly little impact on economic development because of the limited amounts that people can afford to pay for electricity. It recommends initially targeting grid extension to areas with higher potential for significant uptake and expansion of productive uses, while pursuing

[19] Component I project preparation support and Component III enabling environment support, have an active portfolio in 4 and 6 fragile/conflict affected countries, respectively.

[20] AfDB RMCs are grouped based on the Bank's Credit Policy classification, which determines each RMC's eligibility for either concessional resources from the African Development Fund (ADF) (category A), non-concessional resources (category C), or a combination of both concessional and non-concessional resources (category B, or blend countries). A further sub-division of category A is i) countries eligible for ADF grants and loans; ii) Only eligible for ADF loans on hardened terms. Category Ai): Benin, Botswana, Burkina Faso, Burundi*, Central African Rep.*, Chad*, Comoros*, Congo DRC*, Eritrea*, Ethiopia, Gambia*, Guinea*, Guinea-Bissau*, Liberia*, Madagascar*, Malawi, Mali*, Mozambique, Niger*, Rwanda, Sierra Leone*, Somalia*, South Sudan*, Sudan*, Tanzania, Togo*, Uganda, Zimbabwe*; Category Aii): Côte d'Ivoire; Djibouti*, Ghana, Lesotho, Mauritania, Sao Tome & Principe; Category B): Cameroon, Kenya, Senegal, Zambia: Category C): Algeria, Angola, Cape Verde, Republic of the Congo, Egypt, Equatorial Guinea, Gabon, Libya, Mauritius, Morocco, Namibia, Nigeria (graduating to group C), Seychelles, South Africa, Swaziland, Tunisia. (* = the 20 fragile/conflict-affected RMCs).

the provision of smaller-scale alternatives, such as mini-grids, in other areas, although a major challenge for inducing private sector mini-grid investment is confidence with respect to cost recovery.

- The same analysis notes that improved electricity sector governance is a top priority for effectively expanding electricity access in Sub-Saharan Africa, with priorities being to take steps to rationalize electricity pricing, reduce regulatory barriers that limit private sector investment in grid or off-grid power production, make utility operations more efficient and transparent, and foster more independent sector regulation.
- AfDB's response has been to work with governments, the private sector, and bilateral and multilateral energy sector initiatives to develop a Transformative Partnership on Energy for Africa – a platform for public-private partnerships for innovative financing in Africa's energy sector.
- This "New Deal on Energy for Africa" is intended to help unify all the other initiatives that are currently geared towards achieving the goals of universal access in Africa, focusing on five key principles: raising aspirations to solve Africa's energy challenges; establishing a Transformative Partnership on Energy for Africa; mobilizing domestic and international capital for innovative financing in Africa's energy sector; supporting African governments in strengthening energy policy, regulation and sector governance; and increasing AfDB's investments in energy and climate financing.
- Specific targets set in the New Deal include: Increase on-grid generation to add 160 GW of new capacity by 2025; Increase on-grid transmission and grid connections to create 130 million new connections by 2025, 160 percent more than today; Increase off-grid generation to add 75 million, connections by 2025, 20 times the number today. SEFA's expertise and experience has contributed to the AfDB's development of the New Deal.

Sustainable Development Goals

- SDG7 (affordable and clean energy) targets encompass universal access to electricity as well as clean fuels and technologies for cooking and call for a doubling of the rate of improvement of energy efficiency, plus a substantial increase in the share of renewables in the global energy mix. According to the 2018 Global Energy Progress Report overall progress falls short on meeting all targets, however real gains are being made in certain areas. Expansion of access to electricity in poorer countries has recently begun to accelerate, with progress overtaking population growth for the first time in sub-Saharan Africa. Energy efficiency continues to improve, driven by advances in the industrial sector. Renewable energy is making impressive gains in the electricity sector, although these are not being matched in transportation and heating – which together account for 80 % of global energy consumption. Lagging furthest behind is access to clean cooking fuels and technologies – an area that has been typically overlooked by policymakers. SEFA contributes directly to attainment of SDG7, as SEFA projects contribute to electrifying Africa, reducing the access gap.
- With regard to SDG13 (climate action) and the Paris Agreement on Climate Change: IRENA's Global Energy Transformation Report (April 2018) shows that actual carbon dioxide (CO_2) emission trends are not yet on track. Under current and planned policies, (including NDCs under the Paris Agreement), the world would exhaust its energy-related carbon budget in less than 20 years. Keeping the global temperature rise below 2 °C requires the global energy system to undergo a profound transformation, replacing the present system that is largely based on fossil-fuels. The total share of renewable energy must rise from around 18% of total final energy consumption (in 2015) to around two-thirds by 2050. Over the same period, the share of renewables in the power sector should increase from around one-quarter to 85%, mostly through growth in solar and wind power generation. The energy intensity (i.e. reflecting progress in energy efficiency) of the global economy will have to fall by about two-thirds, lowering energy demand in 2050 to slightly less than 2015 levels. This is achievable, despite significant

population and economic growth, by substantially improving energy efficiency. SEFA contributes directly to the attainment of these energy goals by focusing on project development and catalysing private sector investments in early stage renewable energy (RE) markets in Africa.

Key documentation and sources used for the analysis:

High-level Political Forum for Sustainable Development (HLPF) **documentation** (July 2018).
World Bank and other custodian agencies: The Energy Progress Report – **tracking SDG7**.
IRENA Global Energy Transformation report – a **Roadmap to 2050** (April 2018):
SDG7: **https://sustainabledevelopment.un.org/sdg7**
UN: **Progress on SDG 13 (climate change) in 2017.**
AfDB: The Bank Group's Strategy for **The New Deal on Energy for Africa 2016 – 2025**
World Bank: **Africa's Pulse**, Vol 17, April 2018.
IEA: **Global Energy Outlook 2017** (see Chapter 4: Energising development in sub-Saharan Africa).
IRENA press release on RE jobs in low-carbon economic growth:
http://www.irena.org/newsroom/pressreleases/2018/May/Renewable-Energy-Jobs-Reach-10-Million-Worldwide-in-2017
AEEP: **Mapping of Energy Initiatives and Programs in Africa** (2016)
AfDB: **Outcome Document - 5th SEforALL Africa Workshop - May 2018**

Are additional studies / analytic work needed? How and when will it be done?

There is no need to consider additional textual studies and analyses. However, given the extremely dynamic context for SEFA 2, both the formulation of the programme document for Danish support and the implementation of SEFA 2 will need to be continuously informed by contextual developments, including drawing on sources mentioned above.

2. Fragility, conflict, migration and resilience

Key conclusions and implications of the analysis on the below points:

Conflict and fragility: 20 of SEFA's potential target countries are fragile and conflict-affected.

Resilience: As noted in the above-cited IEA energy outlook for Africa, energy access measures are frequently included in the adaptation component of NDCs, highlighting the importance of access to modern energy for increasing resilience.

Migration: The IEA energy outlook for Africa also noted that progress on energy access can contribute to reducing the pressures in Africa to migrate for better opportunities. An EU funded study on "The Role of Sustainable Energy Access in the Migration Debate" concluded that while there is insufficient data to acknowledge energy poverty as a direct driver of migration, it certainly contributes to other recognised drivers such as food insecurity, vulnerability, lack of access to sufficient resources and social services. The study identified two main root causes of migration as directly related to energy access: economic and environmental drivers.

Key documentation and sources used for the analysis:

IEA: **Global Energy Outlook 2017** (see Chapter 4: Energising development in sub-Saharan Africa).
EUEI PDF: **The Role of Sustainable Energy Access in the Migration Debate** (2017).

Are additional studies / analytic work needed? How and when will it be done?

No additional studies need to be carried out as part of the preparation phase, but the possible contribution of SEFA's work to stem migration flows, could be a point of attention during SEFA 2 implementation.

3. Assessment of human rights situation (HRBA) and gender[21]

Key conclusions and implications of the analysis on the below points:

[21] The purpose of the analysis is to facilitate and strengthen the application of the Human Rights Based Approach and integrate gender in Danish development cooperation. The analysis should identify the main human rights issues in respect of social and economic rights, cultural rights, and civil and political rights. Gender is an integral part of all three categories.

Key rights holders and duty bearers:

- SEFA/AfDB does not identify these categories, but SEFA's capacity development support for the policy legal and regulatory enabling environment will contribute to more well-informed and transparent decision making in the energy transition, including better understanding of the wider benefits in end-use, which will enable the *duty bearers* (i.e. the political decision makers and public authorities) to be mindful of the needs and priorities of end-users and ultimate beneficiaries at the enterprise level including women entrepreneurs (the *rights holders*).

Human Rights Principles (Participation, Accountability, Non-discrimination, and Transparency - PANT):

- AfDB's overall 10-year Strategy 2013-2022 emphasises governance and accountability and emphasises how the Bank will support the development of capable states founded on effective institutions, good governance and regulation for economic growth—specifically, property rights, equal access to effective justice and greater participation in decision-making.
- AfDB country strategy papers address economic inclusion issues. SEFA's operational guidelines do not explicitly address the PANT principles or a human rights-based approach to development, but these principles are addressed in different ways. The guidelines have specific requirements for descriptions of project preparation activities, including environmental and social impact assessment, gender analysis, etc.
- On transparency, the 2018 Aid Transparency Index Report, released by Publish What you Fund, has ranked the African Development Bank 4th among 45 development organizations, lifting the Bank by six positions since 2016.

Gender:

- According to AfDB's study "Empowering Women in Africa through Access to Sustainable Energy," women and men have different energy needs linked to their gender roles; women are poorer than men (both in resources and time); and women are generally disadvantaged in terms of ownership and access to land, natural resources, credit, information and decision-making at all levels. Among the study's recommendations were a shift from the traditional supply-side approach (primarily focusing on technology solutions) towards a demand-side approach (energy as an aspect of the social and cultural setting), ensuring that projects addressing women's energy needs take into account the types of value-added productive activities typically done by women, that women should be encouraged to become involved in producing and distributing new energy technologies and services, and that gender-sensitive disaggregation of data should be adopted.
- Despite examples of women as producers, technicians and entrepreneurs in sustainable energy, the traditional energy sector is still one of the least gender-inclusive sectors. According to UNDP, women represented only 6 percent, 4 percent and less than 1 percent of the technical, decision making and top management positions, respectively, in the energy sector. Women entrepreneurs are hindered through structural inequality, in the form of discrimination in law and practice, including in access to credit. There are however several examples of women as producers, technicians and entrepreneurs in sustainable energy.
- The SEFA Operational Procedures manual has a strong emphasis on the gender aspect with an annex on Gender Mainstreaming in Project Preparation Activities; the focus is on gender assessment and analysis; participatory consultative process balancing gender realities; and modalities for enhancing gender benefits and minimizing gender risks; and impact indicators for SEFA projects include direct and indirect employment with breakdown by gender. The SEFA Annual Reports, however, only make sporadic reference to gender, for instance the 2015 Report mentions that SEFA facilitated the Inception

Workshop on "ECOWAS Policy for Mainstreaming Gender in Energy Access", held in February 2015 at the AfDB. The AfDB Project Completion Report format has a mandatory Section 6 – "Assessment on the performance of gender equality in the operation".

Youth

- The focus on the potential positive outcomes and impact on African youth from SEFA support should be strengthened. This issue has not been explicitly addressed in the 2018 External Review of SEFA 1. Denmark supports AfDB's work on youth through the Youth Entrepreneurship and Innovation (YEI) Multi-Donor Trust Fund. AfDB's 2016-2025 strategy Jobs for Youth in Africa (JfYA) is a Bank-wide strategy aimed at creating 25 million jobs and positively impact 50 million youth over the decade. The Strategy is aligned with the AfDB Ten Year Strategy and the other High Five Priority Areas, including the goal of reaching universal energy access by 2025 (Light Up and Power Africa); however, the cross-references to sustainable energy are few.
- The JfYA 2017 implementation progress report briefly mentions that "More than 200 Bank staff have benefited from certified training by ITC/ILO on how to assess and measure the job creation impact of Bank operations; and how to increase jobs for youth results in Human Capital, Agriculture, Private Sector, Energy and Infrastructure operations" but otherwise does not address energy.
- The JfYA "Information and Innovation Lab "Curbing the African Migration Crisis through Job Creation" does not mention energy, nor does the AfDB brochure "Jobs for Youth in Africa" submitted to the AfDB Annual meeting in Busan 2018.

Are additional studies / analytic work needed? How and when will it be done?

No additional studies need to be carried out as part of the preparation phase, but gender equality needs a much stronger focus in SEFA 2 than has been the case in SEFA 1, and this should be reflected in the SEFA 2 operational procedur ***Key documentation and sources used for the analysis:***

IRENA press release on RE jobs in low-carbon economic growth:

Danish Institute on Human Rights: Linking the UPR to the SDGs.

Mary Robinson Foundation: "Incorporating Human Rights into Climate Action"

http://www.irena.org/newsroom/pressreleases/2018/May/Renewable-Energy-Jobs-Reach-10-Million-Worldwide-in-2017

AfDB: "Empowering Women in Africa through Access to Sustainable Energy" (2016)

UNDP: Gender and sustainable energy.

ENERGIA: gender mainstreaming in energy.

The World Bank ESMAP has launched a new initiative on social inclusion in the energy sector, with a specific initial focus on gender: Energy and gender.

Publish What you Fun : 2018 Aid Transparency Index Report

AfDB: Youth Entrepreneurship and Innovation (YEI) Multi-Donor Trust Fund.

AfDB: 2016-2025 strategy Jobs for Youth in Africa (JfYA)

AfDB JfYA: Implementation Progress Report

AfDB JfYA: Information and Innovation Lab Curbing the African Migration Crisis through Job Creation

AfDB brochure Jobs for Youth in Africaes and reporting requirements. Similarly, much more attention needs to be given to the role of sustainable energy in job creation for African youth and the benefits to African youth of SEFA 2.

4. Inclusive sustainable growth, climate change and environment

Key conclusions and implications of the analysis on the below points:

Climate policies and strategies in SEFA partner countries:

- Political will and the institutional and human capacity to implement policies and strategies on sustainable growth and climate change varies considerable between AFDB's 54 Regional Member Countries (RMCs).
- All 54 RMCs have signed the Paris Agreement on Climate Change and submitted ambitious Intended Nationally Determined Contributions (INDCs) and have ratified the Nationally Determined Contributions (NDCs). However, as found by AfDB, "most INDCs submitted by African countries were hastily put together and, in most cases, did not take long term effects on national development goals into consideration. Consequently, they do not truly reflect national needs and potential to fully contribute to global targets of achieving a low-carbon and climate-resilient pathway by mid-century".
- AfDB's Climate Change and Green Growth Department (PECG) has established the Africa NDCs Hub to serve as a resource pool for RMCs, and to coordinate sector activities with a view to fulfilling obligations related to the Paris Agreement. The Hub's activities include analytical work to align country-NDCs with national development agenda, and to explore options to raise ambition necessary for low carbon and climate resilience growth on a long-term trajectory; engage global climate funds and the private sector to cater for both conditional and unconditional pledges of African NDCs; provide a platform for coordination of NDC support activities on the continent for the efficient use of limited resources. This is also important in terms of ensuring SEFA's focused contribution to climate goals. The AfDB PEGG Department is also the anchor for AfDB's role in the "International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting" and manages the active use of the AfDB GHG emission estimation tool, which is based on a robust methodology in line with standards applied by other IFIs. This tool should be applied in SEFA 2 as a basis for reporting on emission reductions planned and achieved.

Mainstreaming support to **inclusive green growth and transformation to low-carbon and climate resilient economies:** This is a key purposed of SEFA, which also has influence within AfDB as a knowledge hub on sustainable energy.

Environmental impact assessment: Environmental and Social Assessment (ESAP) is carried-out according the AfDB procedures.

Key documentation and sources used for the analysis:
AfDB Environmental and Social Assessment Procedures (ESAP) **Revised 2015**
AfDB **Second Climate Change Action Plan**
AfDB **Africa NDC Hub**
UNFCCC (interim) **NDC Registry**

If this initial assessment shows that further work will be needed during the formulation phase, please list how and when will it be done?
No additional studies need to be carried out as part of the preparation phase.

5. Capacity of public sector, public financial management and corruption

Key conclusions and implications of the analysis on the below points:

- The World Bank/SEforAll Regulatory Indicators for Sustainable Energy (RISE) is a well-established set of indicators to help compare national policy and regulatory frameworks for sustainable energy. RISE assesses countries' policy and regulatory support for each of the three pillars of sustainable energy—access to modern energy, EE, and RE. With 27 indicators covering 111 countries and representing 96 percent of the world population, RISE provides a reference point to help policymakers benchmark their sector policy and regulatory framework against those of regional and global peers, and a powerful tool to help develop policies and regulations that advance sustainable energy goals. RISE indicators are available for 41 RMCs. RISE classifies countries into a green zone of strong performers in the top third, a yellow zone of middling performers, and a red zone of weaker performers in the bottom third. Among AfDB's RMCs, 5 are in the green zone, 15 in the yellow zone, and 21 in the red zone, clearly indicating the need for action to strengthen the enabling environment (which is the objective SEFA1.0's Component III).

- AfDB has in June 2018 launched its Electricity Regulatory Index (ERI) for Africa. ERI is expected to become a benchmarking tool that will track progress made by African countries as they align the regulatory frameworks governing their electricity sectors with international standards and best practices. It is noted that ERI does not only cover sustainable energy as RISE does, but a lot other energy sources for electricity. The ERI report finds that "Although many sample countries had established the legal and institutional frameworks for electricity sector regulation, regulators are yet to build an adequate level of capacity and develop appropriate mechanisms to effectively carry out their mandates and make decisions under key aspects of regulatory substance".

Anti-corruption:

- Transparency International in its regional analysis (February 2018) noted that "Despite being the worst performing region as a whole, Africa has several countries that consistently push back against corruption, and with notable progress. Botswana, Seychelles, Cabo Verde, Rwanda and Namibia all score better on the index compared to some OECD countries". The Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and businesspeople; the 2017 index highlights that the majority of countries are making little or no progress in ending corruption.
- AfDB has an Integrity and Anti-Corruption Department with an overriding mandate to carry out independent investigations into allegations of corruption, fraud and other sanctionable practices in Bank Group Financed Operations. Sanctionable Practices have been defined in the Bank's procurement policies as corrupt, fraudulent, collusive, coercive and obstructive practices in relation to Bank Group financed operations. AfDB's Integrity Strategy comprises proactive prevention through risk assessments, sensitization programs, due diligence, and other activities, mainstreaming integrity issues into Bank Group operations and activities, providing technical support to regional member countries in integrity issues and enhancing accountability, participation in international and regional integrity initiatives, and investigations, sanctions and other deterrence processes. There are separate Codes of Conduct for AfDB staff and Executive Directors.

Key documentation and sources used for the analysis:

World Bank ESMAP: Regulatory indicators for Sustainable Energy (RISE)
AfDB: Electricity Regulatory Index (ERI) for Africa.
Transparency International: A Redefining Moment for Africa and Corruption Perceptions Index
AfDB: policy on integrity and anti-corruption and policy on sanctionable practices

Are additional studies / analytic work needed? How and when will it be done?

No additional studies need to be carried out as part of the preparation phase.

6. Matching with Danish strengths and interests, engaging Danish actors, seeking synergy

Key conclusions and implications of the analysis on the below points:

- Through an active role in the SEFA the Oversight Committee and the Board of AfDB, Denmark can influence sustainable energy development in Africa.
- Denmark can – jointly with other Nordic countries – also continue to influence AfDB's energy policy.
- The approach of the Nordic countries to energy related programmes, projects and advisory services in AfDB has been described in a separate document latest updated on 14 February 2018. Key policy

priorities: integration of NDCs in RMC medium-term public expenditure frameworks, budgets and annual activity plans; contribute to the implementation of NDCs and raise the ambition of the NDCs through periodic reviews; highest possible returns in terms of limiting GHG emission both directly from the project and indirectly through its multiplication effects; leveraging additional concessional and private financing in support of strategies and investments designed to accelerate the transition to a low carbon and climate resilient development; phasing-out of fossil fuel subsidies; use of carbon pricing; trans-boundary infrastructure investments that enable countries to tap their various renewable sources and use energy more effectively and efficiently; AfDB reporting on how it is following up on its climate commitments in its energy portfolio, including with a breakdown into operations involving fossil fuels, RE and energy conservation, efficiency and with a specification of how much of the energy portfolio that is classified as climate related operations; policy based lending with focus on overall direction and speed of the transition to a low carbon and climate resilient energy future.

- While AfDB should focus on RE and EE, it may exceptionally choose to support projects based on fossil fuels with state of the art technology guaranteeing the lowest possible GHG emissions, transformative change (job creation, general welfare of the population based on the most climate friendly technology, creating a strong push for the use of renewable sources of energy, EE or energy conservation), and avoid locking into a pattern of non-sustainable forms of energy generation.

Areas where there is potential for increased commercial engagement, trade relations and investment as well as involvement of Danish local and central authorities, civil society organisations and academia:

- The Danish grant support to the SEFA MDTF is untied and therefore not directly associated with Danish commercial interest. However, there are many potential opportunities for commercial and substantive engagement of the Danish resource base in RE and EE solutions in Africa.
- Regarding business opportunities under AfDB supported activities, it is noted that the agencies responsible for implementing projects in recipient countries are responsible for procuring goods, works and services to implement the projects. Further guidance can be found here.
- The Danish development and demonstration programme for energy technology (EUDP) supports new energy technology that can contribute to Denmark's goals in energy and climate change. The EUDP strategy 2017-2019 identifies Danish strongholds and business potentials in energy technology and energy-related research and development, highlighting Denmark as a world leader in wind technology; Denmark as relatively well positioned within EE in lighting, low-energy buildings, building materials and processes, as well as reduction of energy consumption in existing buildings; identifies a Danish stronghold position in the biomass area; and a strength in smart grids and system integration of variable RE.
- The Danish Energy Agency is engaged in bilateral energy cooperation in Ethiopia and South Africa. The State of Green is also a good source of information on the Danish resource base in this field.

Donor landscape and coordination:

- Denmark became a member of the African Development Fund (ADF) in 1973 and of AfDB in 1982.
- Denmark supports several AfDB trust funds and the African Guarantee Fund that was set up to meet the investment needs of SMEs and to develop the capacity of financial institutions.
- As a follow-up to the commitments made in the Africa Commission, Denmark in 2010/ 2011 granted DKK 300 million to establish SEFA. The vision was that the initial Danish contribution would allow AfDB to attract other interested partners once SEFA had been established. The initial single donor arrangement with Denmark was turned into a multi-donor trust fund (MDTF) arrangement in 2014 when first USAID and later, UK, Italy, Norway and Spain joined. Sweden is also considering support of SEFA. Coordination on SEFA takes place through the Oversight Committee, and wider

coordination takes place though the AfDB Board of Directors, where Denmark is represented together the other Nordic countries and India. As noted above, the Nordic countries have a coordinated approach and policy stance on energy-related activities in AfDB.

- The External Review of SEFA 1 contained an analysis of critical success factors for project preparation facilities in Africa and assessed SEFA strengths weaknesses opportunities and threats (SWOT) against these factors. The conclusion was that the area where SEFA focuses is a key gap that is not sufficiently or appropriately covered by any other support, in particular for innovative projects, and that SEFA is the right instrument to bridge the gap of project preparation financing. The SWOT analysis however, did not cover SEFA's Component III, support for the enabling environment – but the Review noted that this component overlaps with other initiatives such as ESMAP, ECREEE and SEforAll, which also focus on enabling environment activities.
- Denmark contributes to several other multilateral and bilateral climate change and sustainable energy initiatives with which there are potentials for synergy with SEFA 2, including:
  - The World Bank Energy Sector Management Assistance Program (ESMAP), which supports the improvement of the enabling environment and policy reforms, influences World Bank lending, and serves as a global knowledge hub under SEforALL - and in this capacity is key to development of major tools such as the Energy Progress Report tracking of progress against SDG7 targets, the Regulatory Indicators for Sustainable Energy (RISE), the Multi-tier Framework for energy access, etc. Also: Lighting Africa.
  - The Green Climate Fund (GCF). AfDB notes that Africa has not succeeded as much as other regions of the world in mobilizing the funding needed to implement climate-smart initiatives. With new GCF funds now available to be channelled through the AfDB, African countries will have additional resources to access. AfDB will focus efforts on working with member states to bring funding proposals forward for submission to the GCF.
  - The UNEP-DTU Partnership and its Copenhagen Centre on EE (CCEE), which is the global EE hub in the international energy architecture;
  - The Climate Technology Centre and Network (CTCN) that is the operational arm of the UNFCCC Technology Mechanism and provides demand-driven support to countries in Africa and other parts of the world. See for example the regional Africa forum for NDE and TNA focal points.
  - The International Energy Agency (IEA) that provides global and regional energy outlooks and scenarios and supports the energy transition in emerging economies with a specific focus on EE. IEA has signed an agreement with the African Union on a strategic partnership on sustainable energy for all goals in Sub-Saharan Africa.
  - The DEA Energy Partnership Programme (DEPP) and other DEA bilateral cooperation (Ethiopia, South Africa).
  - There are also ongoing discussions with the SEforAll Global Team and IRENA about Danish support.
- It is assessed AfDB/SEFA could benefit from further use of knowledge products and tools being produced by other multilateral agencies including those supported by Denmark and that there is scope for further synergies at country and regional level with other initiatives including the above-mentioned - synergies should be further addressed in the formulation of Danish support for SEFA2.

Key documentation and sources used for the analysis:

State of Green

EUDP report

The approach of the Nordic countries to energy related programmes, projects and advisory services in the African Development Bank (Amended version/14 February 2018).

AEEP: Mapping of Energy Initiatives and Programs in Africa (2016)
AfDB: Outcome Document - 5th SEforAll Africa Workshop - May 2018
And links in the text above.

Are additional studies / analytic work needed? How and when will it be done?

No additional studies are needed as part of formulation but updated further information on sustainable energy activities supported by other development partners should be monitored through the formulation process and during implementation of SEFA 2 in order to maximise additionality and avoid duplication.

7. Stakeholder analysis

Key conclusions and implications of the analysis on the below points:

SEFA 1:

- Component I[22]: Main beneficiaries for are private enterprises or public-sector agencies with the goal of becoming either an independent power producer (IPP) or entering into a public–private partnership (PPP); and they can get support (on a cost sharing basis, with minimum 30% funded by the beneficiary) for activities required to bring the project to financial close.
- Component II[23]: Target beneficiaries are the private project developers with independent power RE projects in solar, wind, biomass, hydro, geothermal and certain other technologies. Support is available for equity investments, as well as technical capacity building in relation to project design and execution.
- Component III[24]: Target beneficiaries are public institutions such as AfDB RMC governments, sector agencies, parastatals and regional entities (economic blocks, power pools, power utility and regulator associations), i.e. a wide range of mainly public-sector stakeholders with key mandates related to the enabling environment for RE and EE. As noted in the foregoing, SEFA is currently active in about 25 countries, but almost 30 additional countries are potentially eligible for support.

SEFA 2: Target beneficiary groups will not differ substantially from SEFA 1.

How stakeholders (in the SEFA context) communicate, coordinate, and cooperate:

- Within AfDB, the Technical Review Committee (TRC) is one of the formal vehicles for engagement of other departments, and there are also other steps in the project cycle including procurement, auditing etc. that involves other stakeholders within AfDB. For SEFA projects above USD 1 million, the approval is vested in the OC and AfDB's Board of Directors, where a broader range of stakeholders are involved.
- For SEFA donors, the oversight committee is the main forum for coordination and cooperation.

Stakeholder involvement during the preparation and formulation process:

- There has been a long-standing donor dialogue in the framework of the OC on SEFA 2. A draft SEFA Concept Note 2.0 dated September 2017, has been a basis for this dialogue, and an updated draft version of the SEFA 2 Concept Note was received from the SEFA team in June 2019. The operational guidelines for SEFA will be an important part of the basis for the further development of the Danida concept note for possible replenishment of SEFA.
- An important part of stakeholder involvement in the preparation process has been the independent External Review of SEFA, which was commissioned by AfDB and which was undertaken in the first half of 2018. The Review comprised a survey of stakeholders and multiple interviews. Desirable to

[22] Project preparation grants
[23] Equity investments through SEFA equity capital deployed through the Africa Renewable Energy Fund (AREF) and technical assistance resources under the Project Support Facility (PSF) also via AREF.
[24] Support for the enabling environment.

engage with end users during formulation while drawing on the survey undertaken by the External Review of SEFA 1 in early 2018.
Which stakeholders offer the best overall prospects in terms of possible partnerships and why? The current stakeholder focus for SEFA seems appropriate.
Key documentation and sources used for the analysis: SEFA 1 Operational Guidelines. Material submitted to OC meetings External Review of SEFA 1 final report
Are additional studies / analytic work needed? How and when will it be done? During the preparation phase, more work needs to be done on defining the specific target groups for each component and their needs and priorities – this is particularly important for the enabling component. The results and survey done under the External Review of SEFA 1 should be considered.

Annex 2 - Partners

Summary of stakeholder analysis

Target beneficiary groups for SEFA 2 will not differ from SEFA 1, and thus be comprised of private enterprises, public sector agents, private project developers, and public institutions such as the AfDB and regional member countries governments.

Engagement with SEFA will be demand driven through concrete request to SEFA for support and through the subsequent process of SEFA support and due diligence in the approval process and later trough support in project implementation. Within AfDB, the Technical Review Committee is one of the formal vehicles for engagement of other departments, and there are also other steps in the project cycle including procurement, auditing etc. that involves other stakeholders within AfDB. And for SEFA projects above USD 1 million, the approval is vested in the Oversight Committee and AfDB's Board of Directors.

Brief presentation of key partner features:

AfDB was chosen for its mandate and role in sustainable energy development in Africa and is a trusted partner for Danish development cooperation in Africa in several areas, including the ongoing first phase of SEFA. The conclusion from the context analysis is that SEFA is highly relevant in responding to key challenges and opportunities and is also prepared to take risks in terms of supporting the energy transition in fragile and conflict-affected contexts. SEFA operates in a context with many multilateral and bilateral development partners involved in supporting sustainable energy solutions in Africa. As the Africa regional hub within the Sustainable Energy for All architecture, AfDB is well placed to ensure such synergies and complementarity while avoiding the risk of overlap with other initiative.

AfDB is responsible for the overall administration and accountability of SEFA. AfDB has ample capacity to carry this responsibility, but the SEFA team capacity has been limited throughout the first phase of SEFA, however this will be changed in SEFA 2 by converting consultancy position to project contract positions.

Partner name	Core business	Importance	Influence	Contribution	Capacity	Exit strategy
AfDB	Mobilizing and allocating resources for investment in regional member countries. Providing policy advice and technical assistance to support development efforts.	Medium. In comparison to the African Development Bank's annual turnover SEFA is small. However, SEFA interventions have often been complementary to AfDB and SEFA is thus a high priority for the bank. The SEFA rationale is to target small/medium transactions where AfDB has not been active, to engage the bank in RE projects that would otherwise not be viable for the bank.	Medium AfDB serves as the Trustee and secretariat for SEFA and is thereby the legal owner and administrator. AfDB therefore acts as both strategic and financial stakeholder. Nevertheless, it is the Oversight Committee, and thereby the donor countries, which is the decision making entity and who approve funding requests.	Through the SEFA Secretariat, the AFDB issues calls for proposals and manages the technical review process for submitted proposals. As Trustee, AfDB receives funds and is in charge of coordination of disbursements. AfDB is also responsible for the project implementation for specific projects.	SEFA has adequate capacity to implement the program efficiently. SEFA's strength lies in its facilitating response to implementing partners' key challenges and opportunities at the preparatory stages of renewable energy interventions.	SEFA Special Fund which has an expected lifetime of 10 years that is extendable. After this time, two options are proposed in the project document: (i) phasing out SEFA and redeploying its capital elsewhere as agreed by donors; (ii) Phasing out SEFA and disbursing remaining funds to donors on a pro rata basis. Denmark will reviwt makes sense to keep the options open until nearer the time-end of the Special Fund.

Annex 4 – SEFA Results Based Logical Framework

	RESULTS CHAIN		PERFORMANCE INDICATORS	BASELINE	TARGET (US$ 300m) (2025)	TARGET (US$ 500m) (2030)	MEANS OF VERIFICATION	ASSUMPTIONS/DRIVERS
IMPACT	African Countries to achieve universal access to sustainable, reliable and affordable energy services		- African population with access to electricity (percentage) (SDG7) - Cumulated energy mix in Africa (% of installed MW from renewable energy technology) - Energy intensity (MJ/USD PPP 2011) (SDG7)	44 (2017) 17 (2013) 7.3 (2016)	100 (2030) 49 (2030) 5 (2030)	100 (2030) 49 (2030) 5 (2030)	SDG progress report IRENA SDG progress report	**Assumption**: African national governments will continue moving towards transparent, competitive tendering for privatized energy generation, including for renewables **Driver:** Energy is the foundation for productive growth in an economy
OUTCOMES	Increase access to sustainable energy Increase adoption of Renewable Energy Increase energy savings		- People with new electricity connections (number)	9,000	3,300,000	7,500,000	SEFA Annual Operations and Results Report	**Assumption:** Private investors will continue sponsoring and/or investing in renewable energy as an asset class globally, with some investors pursuing diversification and/or impact targets by investing in Africa **Driver:** Public resources are insufficient to address the energy gap in Africa Pursuing a low-carbon/green growth pathway is almost universally agreed by policy makers and private power sector operators
			- New renewable power capacity installed(MW)	88	1,500	3,000		
			- Energy savings from new investments (MWh/year)	0	730,000	1,350,000		
			- Direct employment (number), of which are women (%)	105 (11%)	1,000 (50%)	2,160 (50%)		
			- Reduction of carbon emissions - tons of carbon dioxide equivalent (tCO2e)	N/A	3,300,000	5,500,000		
			- Total volume of investment mobilized by SEFA commitments (USD m)	457	1,800	3,100		
OUTPUTS	Promoting and delivering sustainable energy solutions through more investments	Green Baseload projects and programs deployed	- Technical Assistance to projects/programs (number) - Finance committed by SEFA (USD m) - Number of people trained, of which (%) are women	0 0 0	9 143 1,200 (50%)	15 238 2,000 (50%)	SEFA semi-annual and annual progress reports	**Assumption:** Technology costs for generation and storage will continue to fall; storage will prove increasingly feasible as revenue-generating technology as global R&D continues Relatively high transaction costs and information asymmetry and/or lack of data will continue to hinder investment in African renewable energy, though at a rate slowly declining over time **Driver:** Public utility models may not be best suited at reaching currently un(der)powered areas of some African countries
		Mini-grids projects, assistance and programs deployed	- Technical Assistance projects/programs (number) - Finance committed by SEFA (USD m) - Number of people trained, of which (%) are women	0 0 0	9 105 300 (50%)	15 175 500 (50%)		
		Energy Efficiency projects and programs deployed	- Technical Assistance projects/programs (number) - Finance committed by SEFA (USD m) - Number of people trained, of which (%) are women	0 0 0	6 30 72 (50%)	10 50 120 (50%)		

KEY ACTIVITIES	COMPONENTS/PROGRAMMES	INPUTS	
	1 - Green Baseload 2 - Green Mini-Grids 3 - Energy Efficiency	• Grant contributions to the Special Fund and co-financing arrangements – target of US$500 million • AfDB expertise and staff resources	

Annex 5 – 2020-2023 Estimated Investment Budget:

From 01/01/2020 to 31/12/2020

2020-2023 SEFA Estimated Investment Budget for SEFA Special Fund									
	# of operations / US$ Amount Requested								
	2020		2021		2022		Total 3 years		
	#	USD							
Baseload		**$**	**24,500,000.00**	**$**	**24,500,000.00**	**$**	**26,000,000.00**	**$**	**75,000,000.00**
Technical Assistance		$	4,500,000.00	$	4,500,000.00	$	6,000,000.00	$	15,000,000.00
Concessional Investments		$	20,000,000.00	$	20,000,000.00	$	20,000,000.00	$	60,000,000.00
Mini-Grids		**$**	**18,000,000.00**	**$**	**20,000,000.00**	**$**	**19,000,000.00**	**$**	**57,000,000.00**
Technical Assistance		$	3,000,000.00	$	4,000,000.00	$	3,000,000.00	$	10,000,000.00
Concessional Investments		$	15,000,000.00	$	16,000,000.00	$	16,000,000.00	$	47,000,000.00
Energy Efficiency		**$**	**7,000,000.00**	**$**	**8,000,000.00**	**$**	**8,000,000.00**	**$**	**23,000,000.00**
Technical Assistance		$	2,000,000.00	$	3,000,000.00	$	3,000,000.00	$	8,000,000.00
Concessional Investments		$	5,000,000.00	$	5,000,000.00	$	5,000,000.00	$	15,000,000.00
Administration	-	**$**	**921,000.00**	**$**	**833,000.00**	**$**	**826,400.00**	**$**	**2,580,400.00**
Bank Management Fee	-	**$**	**2,475,000.00**	**$**	**2,625,000.00**	**$**	**2,650,000.00**	**$**	**7,750,000.00**
TOTAL		**$**	**52,896,000.00**	**$**	**55,958,000.00**	**$**	**56,476,400.00**	**$**	**165,330,400.00**

Annex 6 - Risk Management Matrix

Contextual risks:

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Vested interests and fossil fuels subsidy regimes in RMCs hamper SEFA efforts to increase RE and EE.	Likely	High	Through SEFA and wider AfDB awareness-raising and capacity development, support the momentum toward the green energy transition demonstrating the benefits of RE deployment and increased EE, the avoidance of stranded assets, etc.	Medium	The price of fossil-fuels based energy is an important factor in in promoting and uptake of RE and EE. There is growing recognition of the negative consequences of fossil fuels subsidies, but this is controversial and changes in subsidy schemes have led to social unrest in many countries and there are strong vested interests.
SEFA projects affected by political instability or unrest, leading to lack of engagement and commitment with stakeholders and potential danger to project participants.	Likely	High	Careful due diligence of funding requests including environmental and social assessment procedures (ESAP).	Low	SEFA currently operates in several RMCs that area fragile/conflict affected. Component I project preparation support and Component III enabling environment support, have an active portfolio in 4 and 6 fragile/conflict affected countries, respectively. Among the total of 54 RMCs that are eligible for SEFA support, 20 are fragile/conflict-affected.
Political commitments to a green energy transition in RMCs could be undermined due to changes of government and/or political priorities.	Likely	Medium	SEFA alignment to robust international frameworks including the relevant SDGs and the Paris Agreement on Climate Change. Awareness-raising and capacity development, and demonstration of benefits of the energy transition. Undertake political economy analysis for enabling environment support. Facilitate the sharing of impact and success stories among peers also in other countries with comparable framework conditions.	Low	There is always the possibility of a change of government and related shift in policy priorities in RMCs and not least in the fragile/ conflict affected RMCs this could undermine political commitment to strengthening the enabling environment for RE and EE. The robust international framework of the SDGs and the Paris Agreement on Climate Change as well as the "power of the example" from other countries with similar conditions can help mitigate this risk. AfDB's strong credibility and leverage with RMCs is also a positive factor.
NDCs (and national sectoral policies and strategies) with which SEFA projects will align, could prove to	Likely	Low	With regard to NDCs, the AfDB Africa NDC Hub is an important initiative with which SEFA should liaise closely provide inputs to raising the level of ambition in NDCs by 2020.	Low	The Africa NDC Hub provides an opportunity for the Bank and its partners to engage national, sub-national, non-state actors and private sector representatives on appropriate policies, strategies and actions tailored to suit individual needs of African countries to enable them

be vague and unambitious or are not enacted.					deliver their climate change commitments under the Paris Agreement. The NDC Hub will also support African countries in mobilizing finance at scale to support national sustainable development imperatives.
Over-supply of energy in some RMCs, but too limited focus on transmission and distribution hampers sustainable energy development objectives.	Likely	Low	SEFA's focus and comparative strengths are in RE deployment and EE improvements off-grid, in green mini grids (GMGs) and also on-grid - with a focus on the end user of energy. With regard to transmission, SEFA should strive for synergy and complementarity with other AfDB lending.	Low	The SEFA team notes that Africa has a transmission and distribution problem that is often ignored in favour of new generation capacity. AfDB has a major lending portfolio of transmission and distribution infrastructure with which SEFA should maximise synergies and complementarities.
Enabling environment in partner countries does not facilitate RE deployment and EE.	Likely	High	In its enabling environment SEFA focus supporting project developer and governments in addressing key bottlenecks that are identified in RMCs for instance though the RISE and ERI diagnostics.	Medium	The World Bank/SEforALL Regulatory Indicators for Sustainable Energy (RISE) is a comprehensive diagnostic tool that identifies constraints and opportunities in the enabling environment for RE and EE. AfDB has recently launched its Electricity Regulatory Index for Africa (ERI) that also is a country-by-country assessment highlighting key areas in regulatory design and practice that require improvement and reform.

Programmatic risks:

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
SEFA might duplicate existing activities by other development partners and sources of finance or fail to recognise interfaces and synergies with other initiatives in a crowded arena.	Unlikely	Low	SEFA is well-informed about other initiatives but could consider undertaking a SWOT analysis that also covers its enabling environment support to ensure focus and additionality.	Low	SEFA operates in a crowded and extremely dynamic field with many development partners, and the incentives for coordination and synergy may not always be effective. There is no comprehensive up-to-date overview of initiatives in the wide field of RE and EE in Africa, but AfDB and its country offices are active in development partner cooperation in sustainable energy and climate change mitigation. The AfDB's role as the SEforALL regional hub for Africa also contributes to its ability to keep informed about other initiatives and seek additionality. The External Review of SEFA undertook a

					limited SWOT analysis of SEFA's role as a project preparation grant facility and found that it fills a gap; however, the Review also indicated possible issues regarding focus and additionality of the SEFA enabling environment support component.
Public sector constraints in RMC negatively affect implementation progress in enabling environment grants.	Likely	High	Engage AfDB staff in the regional units and country AfDB offices to provide close coordination with project implementation units and address constraints in development partner coordination groups with RMC Governments.	Medium	SEFA has experienced delays in implementation of enabling environment grants due to bureaucratic delays in RMC government departments.
Limited capacity of local partners impedes implementation progress and results.	Likely	High	As above, engage AfDB regional staff and country offices. Provide targeted capacity development support with clear goals and performance indicators.	Medium	Developing the capacity of political decision maker and practitioners in long-term energy planning as an important part of this project.

Institutional risks:

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Insufficient continuity and capacity in SEFA team staffing.	Likely	High	SEFA has largely operated with consultants, which is a key risk for the continuity of operations as the one-year term of the contracts do not synchronize with the multi-year duration of the projects. SEFA is moving towards full-time long-term (multi-year) contracts (i.e. project staff) for key positions. Short-term consultants will continue to be deployed to meet specific capacity and skills constraints.	Medium	The supply of SEFA funds and SEFA processing is simply limited by the resources available and the External Review found that "There is a strong consensus that staff and resources are severely stretched, given the workload".
Unrealistic expectations to project impact in terms of CO_2 emission reductions	Likely	Medium	Proactively use impact drivers in SEFA 2 Theory of Change. Use the AfDB greenhouse gas emission estimation tool for both RE and EE projects and include relevant assessments of emission reductions in SEFA results reporting. Make the methodology for assessing	Low	As the Danish contribution to SEFA2 is proposed to be funded from the Climate Envelope, the mandatory core indicators include emission reductions and financial leverage.

and financial leverage.			SEFA's financial leverage explicit and report accordingly.		

Annex 7 – List of Supplementary Materials

#	Documents / Material	Source
1.	Sustainable Energy Fund for Africa: Conversion to a Special Fund and Scale Up	SEFA, 2 July 2019
2.	External Review of the Sustainable Energy Fund for Africa, Draft Final Report, v2	ECo. Ltd, 9 July 2018
3.	SEFA Annual Report 2018	SEFA, July 2018
4.	SEFA Quarterly update 2nd quarter 2019	SEFA, July 2018
5.	SEFA Work Programme 2018 for OC	SEFA, June 2018
6.	The approach of the Nordic countries to energy related programmes, projects and advisory services in the African Development Bank	Amended version, 14 February 2018.
7.	SEFA Multi-donor Arrangement signed by Denmark	Signed by MFA Africa Department 20 June 2014
8.	The African Development Bank Group's Second Climate Change Action Plan (2016–2020)	AfDB, 5 June 2018
9.	The Bank Group's Strategy for The New Deal on Energy for Africa 2016 – 2025	AfDB, 2016
10.	Outcome Document 5th SEforAll Africa Workshop	SEforAll Africa Hub, May 2018
11.	SEFA Operational Procedures	SEFA, 12 November 2014
12.	SEFA Mid-Term Review Final Report	MFA TAS, 26 February 2016
13.	MOPAN 2015-2016 Assessments of AfDB	MOPAN, 2016

Annex 8 – Communication of Results

What? (the message)	**When?** (the timing)	**How?** (the mechanism)	**Audience(s)**	**Responsible**
Denmark continues its support to SEFA in a second phase.	When donor agreement for SEFA 2 signed	AfDB News: https://www.afdb.org/en/news-and-events/ AfDB press release: https://www.afdb.org/en/news-and-events/press-releases/	AfDB RMCs and the African and global development community.	AfDB.
SEFA 2 objectives, expected results, target beneficiaries, eligibility criteria, and process for requests.	At the launch of SEFA 2.	AfDB website for SEFA: https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/sustainable-energy-fund-for-africa/	Target groups for SEFA and RMCs more broadly.	SEFA Team/AfDB.
SEFA 2 launched.	At the launch of SEFA 2.	Cross-link to AfDB SEFA website form AfDB country office websites	Target groups for SEFA in the RMC where the country office is located.	AfDB country offices.
SEFA success stories and opportunities to benefit from SEFA support.	At future events of the Africa Energy market place (AEMP).	Presentations on SEFA at AEMP events.	Target groups for SEFA support and potential investors.	SEFA Team/AfDB.
SEFA impact stories.	Ongoing, when each success is documented.	AfDB success stories: https://www.afdb.org/en/news-and-events/success-stories/	AfDB RMCs and the donor community	SEFA Team/AfDB.
SEFA contributes to climate change mitigation.	During international summits adressing climate change such as the COP meetings.	Presentations and side events	UNFCCC and the global development community on climate change	AfDB with SEFA team.

SEFA contributes to the achievement of SDG7.	SEforALL Forum 2020	Through AfDB representatives at Forum.	Development community on sustainable energy	AfDB SEforALL Africa Hub team with SEFA team.
SEFA contributions to the achievement of SDG7.	Annual SEforALL Africa workshops.	Presentations at workshop events and news items at: https://www.se4all-africa.org/news-resources/news/	Development community on sustainable energy	AfDB Africa Hub team with SEFA team.
Denmark contributes to SEFA 2.	When donor Agreement for SEFA 2 signed.	MFA/Danida news: http://um.dk/en/news/	The Danish and international development community	MFA Public Diplomacy.
SEFA success stories on enterprises and people served with renewable energy through SEFA and energy efficiency increased	Ongoing, when each major success story is documented.	World's Best News campaign (”Verdens bedste nyheder” in Danish): https://worldsbestnews.org/ MFA Denmark Daily newsletters.	The Danish and international development community	MFA Public Diplomacy.
Cross-link to SEFA website and relevant examples of SEFA success stories.	Ongoing, when a relevant major success story is documented.	Embassy website, Danida section.	The partner countries to which the embassy is accredited and wider development community.	Embassies of Denmark in relevant African countries.
Case(s) on SEFA success story on supply of renewable energy.	When a relevant major success story is documented.	State of Green: https://stateofgreen.com/en/sustainable-energy-to-power-the-future/	Danish resource base and wider development community.	MFA Public Diplomacy.
Cases of success in delivery of renewable energy with investments through AREF and SEFA support	When a relevant major success story is documented.	AREF website https://www.berkeley-energy.com/africa-renewable-energy-fund/	Present and potential investors and the wider development community.	AREF Fund Manager (Berkeley).

Annex 9 - Process Action Plan (PAP) - Next Steps

Action/product	**Dates/Deadlines**	**Responsible/involved** **Person and unit**	**Comment/status**
Formulation of SEFA 2:			
Finalisation of formulation of SEFA 2 documentation according to Danida requirements and formats. Including the development of operational procedures.	October 2019	MKL/TQS in liaison with SEFA/ AfDB.	
Approval of SEFA by Board of Governors	31 October 2019	SEFA/AfDB	
Approval of Danish support for SEFA 2:			
Finalisation of documentation for submission to the Council for Development Policy.	September /October 2019	MKL in liaison with SEFA /AfDB.	
Submission of documentation to the Council for Development Policy	11 October 2019	MKL in liaison with TQS	
Presentation to the Council for Development Policy for approval.	29 October 2019	MKL	
Approval by Danish Minister for Development Cooperation.	11 November 2019	Minister for Development Cooperation.	
Submission of documentation for the Finance Committee of Danish Parliament.	13 November 2019	MKL	
Meeting of Finance Committee	21 November 2019	MKL	
Signing of legally binding agreement with AfDB.	December 2019	MKL	
Commitment booked in the MFA financial system.	Q2 2020	MKL	
First disbursement to SEFA 2 MDTF	Q2 2020	MKL	On request from AfDB.

Annex 10 – SEFA 1 Results Log Framework

	RESULTS CHAIN	PERFORMANCE INDICATORS				
		Indicator	Baseline	Target	ACTUAL VALUES	Commitments based on projects approved Total
IMPACT	Promoting job creation, private sector led growth, and human development through the use of sustainable (affordable, reliable, clean) energy	Energy Development Index (EDI) Human Development Index (HDI)*	2012 HDI value and EDI value for each country	N/A	N/A	N/A
OUTCOMES	Access to modern energy increased for SMEs and households	New connections (number) for projects	0 (2012)	150000 (2018)	500	335,848
OUTCOMES	Funding raised for RE projects (financial leverage)	Total volume (of equity and debt raised for RE projects $ million) for component 1 and 2	0 (2012)	1,000 (2018)	383	1,516
OUTCOMES	Increase in RE in the energy mix	Aggregate installed RE capacity (MW) for component 1 and 2	0 (2012)	500 (2018)	0	556
OUTCOMES	Direct employment creation (sector/project level)	Jobs created at project sites (number)	0 (2012)	450 (2018)	62	27,102
OUTCOMES	Reduction/avoidance of GHG emissions (project level)	CO2 equiv. saved through use of RE (tons)	0 (2012)	3,000,000 (2018)	0	4,067,600
OUTPUTS - I	RE projects supported by SEFA reaching financial close	No. of projects receiving Project Preparation Grants reaching financial close - 1 project/year from 2014	0 (2012)	4 (2018)	1	27
OUTPUTS - I	RE projects receiving pre-investment assistance from SEFA	No. of PPGs awarded - 4-6 new PPGs/year from 2013 to 2018	0 (2012)	30 (2018)	22	22
OUTPUTS - II	RE projects receiving equity and managerial support	Committed capital invested (%)	0 (2013)	90 (2018)	77	77
OUTPUTS - II	RE projects receiving equity and managerial support	Portfolio companies at end of investment period (number)	0 (2013)	10 (2018)	9	9
OUTPUTS - II	Pre-investment support provided to RE projects and entrepreneurs	Companies/projects supported (number)	0 (2013)	20 (2018)	9	9
OUTPUTS - III	Improved investment environment for RE projects	Countries with new policies - 3 countries/year supported from 2014 (number)	0 (2013)	12 (2018)	2	12
OUTPUTS - III	Completed activities related to institutional support and capacity development on RE/EE	People trained on RE/EE *** (number)	0 (2013)	150 (2018)	120	1819
OUTPUTS - III	Improved regulatory and market conditions for Green Mini-Grids	No. of GMG enabling projects - 5 country support packages & Market Development Programmes implemented	0 (2014)	6 (2018)	6	6

Annex 11: Introduction to the Climate Envelope 2019

Most projects of the Climate Envelope for 2017 and 2018 were presented to the programme committee in one concept note, and later presented to the council on development policy in separate programme documents. This presented a good overview of the Climate Envelope for the programme committee but is also entailed that most projects were only described in brief and detailed comments were thus hard to give. This brief paper serves to present an overview of the envelope and briefly describe how the suggested allocation of funds are considered in accordance with the guiding principles of the climate envelope. Each project will afterwards be presented to the programme committee in separate concept notes.

The reason for the change of procedure is two-fold. First, the distribution of the climate envelope was subject to discussion in the Government's Coordination Committee as an integrated part of the development assistance priorities for the financial act of 2019. As the political approval process is harmonized with the general approval of overseas development assistance, it has been considered only natural to align the approval process with the general guidelines for approval of development assistance. Second, the Ministry of Utilities, Energy and Climate and the Ministry of Foreign Affairs have agreed to focus on fewer projects with a longer timespan than in earlier years. With fewer but larger projects, we welcome the programme committee to provide feedback to more matured projects than earlier years. The predominant reason for having larger projects is a shared understanding that larger sums will have better accumulative impact, and that the guiding principles of the climate envelope thus can be better reflected in the output of the projects. Also, in order to have a strategic impact, projects with a longer timespan is needed, in particular when projects are focusing on mobilizing capital or influence the regulatory environment in a given constituency or organization.

With reference to the guiding principles of the Climate Envelope, which identifies an overall theory of change, the Climate envelope has the prime objective of reducing emission of greenhouse gases and increasing vulnerable groups' climate resilience. The selection of projects have had these goals as overreaching targets, which will be presented in detail at the individual presentations of each project. Please see below for an overview of the suggested distribution as approved by the government.

Name of initiative	Sum (DKK mil.) revised according to frame adjustment	Focus	Initiative	Status
Least Developed Countries Fund	150	Adaptation	Collaborative	Presented to PC and UPR as part of GEF organizational strategy
Green Climate Fund	/ (deferred)	Adaptation/mitigation	Collaborative	Presentation to PC in 2019
Sustainable Energy Fund for Africa (SEFA	235	Mitigation	Collaborative	Presentation to PC in December 2018
Danish Energy Partnership Programme in India	60	Mitigation	MEUC	Presentation to PC in 2019
IRENA Lighthouse	50	Adaptation/mitigation	MFA	Presentation to PC in December 2018
Fossil Fuels Sector Reform	20	Mitigation	MEUC	Presentation to PC in 2019
Support to SDG7 and 14 (recipients TBD)	25	Mitigation	Collaborative	No presentation to PC

Annex 12 - Approach to blended finance

Definition: per the AfDB Approach on Blended Finance, blended finance "is an innovative financing mechanism combining official development assistance with additional commercial finance for development. Blended finance combines concessional finance to mobilize commercial finance from Development Finance Institutions (DFIs) and/or the private sector, to mobilize Finance for Development at scale, including through accessing a share of the USD 1 trillion in assets under management by private institutional investors."

In the context of SEFA: while blended finance principles primarily apply to the CI window's instruments and operations, they should also guide any TA window operations where the beneficiary is a private entity. This includes, but is not limited to, the utilization of reimbursable grants in project preparation activities.

Guiding principles: the following principles underpin blended finance, as it is approached by all the MDBs in relation to non-sovereign operations (and therefore apply to all CI window operations undertaken by SEFA): the following principles underpin blended finance, as it is approached by all the MDBs in relation to non-sovereign operations (and therefore apply to all CI window operations undertaken by SEFA):

Principle[25]	**Description**
i. Additionality	MDB support of the private sector should create benefits which are either not available in the market or cannot be offered cost effectively
ii. Crowding-in and minimum concessionality	MDB support should contribute to catalysing market development and the mobilization of private sector resources, but should not offer outsized returns
iii. Commercial sustainability	MDB support of the private sector should contribute towards the commercial viability of clients
iv. Reinforcing markets	Assistance to the private sector should be structured to address market failures, and minimize the risk of disrupting or distorting markets
v. Promoting high standards	MDB private sector operations should seek to promote adherence to high standards of conduct in their clients: environment and social; transparency; governance etc.
vi. Value for money	SEFA should always seek to get best value for money in terms of impacts achieved, including but not exclusively in terms of private capital catalyzed alongside its investments

Defining viability gaps: SEFA's "sweet spot" is in targeting and ameliorating the effect of viability gaps in the project lifecycle. Most commonly, these occur in project development where equity capital alone is insufficient to overcome all necessary feasibility, detailed design and structuring hurdles before commercial investors, and even MDBs, can be approached for financing. Viability gaps may also arise, especially in the context of energy efficiency, when a private beneficiary is not able to fully monetize public goods generated by a project and further incentive structures are required.

[25] i-v are from the joint MDB principles; vi is SEFA-specific

Annex 13: Summary of recommendations of the appraisal

The recommendations[26] of the appraisal report requiring action from the responsible unit are presented in the left column below, and the table signed by the appraisal team leader (TQS representative) and received by the responsible unit no later than 14 days after the end of the appraisal process. The right column is filled in by the responsible unit, when the final Project documentation has been prepared, and the table is forwarded to the Under-Secretary for Global Development and Cooperation and TQS as soon as possible, and no later than six weeks before the planned presentation of the appropriation to the Council for Development Policy, i.e. two weeks before the request for inclusion of the appropriation on the agenda of the Council for Development Policy is forwarded to TQS.

Title of project	**Sustainable Energy fund for Africa (SEFA Special Fund)**
File number/F2 reference	**104.Afrika.34-4 / F2: 2018-24492**
Appraisal report date	**10th October 2019**
Council for Development Policy meeting date	**28th October 2019**
Summary of possible recommendations not followed	

[26] The number of recommendations should under normal circumstances not exceed 10; in case of large and complex (country) programmes this maximum may be exceeded.

Overall conclusion of the appraisal

The proposed SEFA Special Fund is a successor to SEFA 1, which was established in a cooperation between Denmark and the AfDB as a follow up to the Africa Commission. With its focus on green energy SEFA is well alighted to the strategic priorities of Denmark, specifically it supports Danish priorities for the climate envelope at country, regional and international level as well as aligned to AfDB priorities. SEFA underpins well AfDB's priority of enhancing its focus on electrifying unserved rural areas in Africa by enhancing its operations in green mini-grids.

The AT assesses the preparation phase to be solid and well informed and finds that the proposed conversion of SEFA into a special fund is the right move in order to allow SEFA to expand its instruments and to unfold to its full potential. The appraisal team assesses that recommendations from the Danida Programme Committee (PC) have been sufficiently addressed.

The proposed second phase of SEFA builds on the success of SEFA 1. Lessons learned has sufficiently been drawn and guided the preparation of SEFA Special Fund. The new structure aims at adapting SEFA to meet the needs of the evolving energy markets in Africa and will enable AfDB to amplify impact through widening the suite of financial instruments and introduce partial cost recovery ('reimbursable grants') for project preparation in line with current best practice in the sector. The appraisal team assesses that the rationale for the proposed restructuring in to a Special Fund clear and well justified.

The theory of change and development objective for SEFA 1 are extended to SEFA Special Fund and therefore embedded various documents. Albeit the theory of change and overall development objective remains valid, the AT finds that it will be useful to formally bring these from SEFA 1 into SEFA Special Fund in a strategic framework document, which can serve as a framework for a multiyear planning instrument. This is to be drafted by AfDB and presented for discussions in the oversight committee. Hence, it is an activity to be undertaken in tandem with finalisation of the Operations procedures document.

Based on SEFA 1 past performance as documented in the mid-term review (2016) and an external evaluation(2018) as well information from external sources gathered during field visits and the Danish/Norwegian appraisal teams concluded that the SEFA Special Fund have significant potential to deliver outcomes which will lead to significant economic, social, and environmental benefits.

On this basis, the conclusion of the appraisal is that the project is suitable for Danish support and the project is recommended be presented for approval.

Recommendations by the appraisal team	**Follow up by the responsible unit**
General recommendation	
#1: MKL to raise the issue of AfDB having no policy paper on Special Funds with the Nordic Director in AfDB and propose to the Board of Directors that a guiding paper be drafted in line with what is in place for trust funds.	MKL will raise this issue in connection with the general trust fund reform that is being undertaken by the bank. The Nordic countries have been very active in this process and have developed a joined issue matrix that has been presented to the bank. The Nordics are set to meet with the responsible unit from the bank this year, where Denmark will raise the issue of the need for developing a policy paper for Special Funds.
Recommendations to AfDB	

Recommendations by the appraisal team	Follow up by the responsible unit
# 5: AfDB to draft and present to the Oversight Committee (OC) a strategic framework document (a 'project document') for SEFA Special Fund setting out a brief strategic vision for a 10-year strategic period with theory of change, strategic priorities, and expected results, which will form the basis for a multi-year rolling planning cycle. *#6: Request AfDB to update the theory of change description in the operations procedures document to include assumptions and drivers for inclusion in the strategic framework and make subsequent update of the Development Engagement document.* *# 7: AfDB to revise the results framework under three funding level scenarios clearly speaking to SEFA's development objective and theory of change with clear, measurable targets for each scenario, and develop a format for annual planning and reporting to be presented to the Oversight Committee.* *# 8: AfDB to further develop the SEFA risk management outline from the AfDB Board document into a matrix and include it in the operations procedures document.* *# 9: AfDB to develop a projective budget for a 3-year period 2020-2023 in line with the proposed 3-year rolling planning scenario including greater clarity over modalities and distribution between the technical assistance and concessionary investment windows.*	#5 MKL has requested the bank to develop a strategic framework paper aligned with the recommendation from AR. SEFA is currently drafting the strategic framework document and expect to present the document to the OC on the 18th of October. #6 MKL has requested the bank to revise Theory of Change to include assumptions and drivers in connection with drafting the strategic framework paper. #7 The AfDB current results framework has come a long way in fulfilling recommendation 7. However, the bank still needs to revise the current results framework under three funding level scenarios. MKL will make sure this revision is undertaken. #8 MKL has clearly communicated this recommendation to AfDB and we expect there to be a risk management matrix included in the revised OPD. #9 MKL will work for that the bank develops a 3-year rolling administrative budget in connection with the strategic framework paper. The 3-year estimated investment budget is included in annex 5 of the DED.
Recommendations to MKL on the Development Engagement Document	

Recommendations by the appraisal team	**Follow up by the responsible unit**
# 2: MKL to strengthen the text in the DED on the rationale for converting SEFA from a traditional trust fund to a special fund. *# 3: Update the DED and include references to SEFA reporting, external evaluation to back up statements on achievements (chapter 2.2, 3.1, 3.3), ensure consistency in the description of the SEFA structure, and revisit text on exit strategy (chapter 8 to chapter 10.1). Expand on the cross cutting issues should be made (chapter 4).* *# 11: MKL to develop an overview of issues and priorities which Denmark will focus on in the OC and annex this to the development engagement document.*	#2 Additional text has been added to the DED to explain the difference between a trust fund and a special fund to strengthen the rationale for the restructuring. #3 References have been added throughout the DED. Furthermore, issues surrounding the consistency of terminology in the description of the SEFA structure has been addressed and text has been revisited regarding the exit strategy. Finally, more text has been added to explain how cut crossing issues are being integrated into SEFA 2. # 11 Section 5.4 has been added to the DED, which outlines the issues MKL is working on addressing in the OC.
SEFA special fund operations procedures document (OPD)	
#4: The operations procedures document to make reference both to the AfDB policies and requirements on gender and youth and provide a Gender and Youth Management Plan in an Annex to the OPD and in the budget presentation format to also include a distinction between LIC/MIC countries. *#10: Denmark to engage with the SEFA team for a dialogue on the update of the operations procedures document with a minimum that issues raised in the appraisal be addressed*	#4 MKL has underlined this recommendation to AfDB and we expect there to be a risk management matrix included in the revised OPD that we will receive soon. #10 MKL is engaging with the AfDB on a weekly basis in relation to the revision of the OPD. AfDB has developed an issue matrix outlining the areas that need to be revised in the OPD. MKL has ensured that this matrix reflects the recommendations from the appraisal. When MKL receives the revised version of the OPD we will carefully go through the document to ensure the issues have been addressed sufficiently. Section 5.4 in the DED outlines the issues still to be addressed.

--ooOoo--

I hereby confirm that the above-mentioned issues have been addressed properly as part of the appraisal and that the appraisal team has provided the recommendations stated above.

Signed in………………… on the …….……………………………………..

Appraisal Team leader/TQS representative

I hereby confirm that the responsible unit has undertaken the follow-up activities stated above. In cases where recommendations have not been accepted, reasons for this are given either in the table or in the notes enclosed.

Signed in………………….on the……………….…………………………….…

Head of Unit/Mission