

Renewable energy for sustainable development

Developing renewable energy in Africa is more than an environmental imperative; it can be an economic driver by putting the continent's abundant natural resources to work for African populations and beyond. **Renewable energy**—such as hydro, solar, wind, geothermal and bioenergy—**has the power to expand access to energy, create new jobs, engage the private sector, and develop trade relationships on large and small scales.**

In this issue of *Climate Finance*, we narrow our scope to focus on specific renewable energy markets that promise considerable co-benefits: those of low income countries and those being developed by small to medium size enterprises (SME). The Bank can leverage two targeted international climate facilities to extend its reach in these areas:

On the horizon, the AfDB and Denmark's proposed **Sustainable Energy Fund for Africa (SEFA)** is designed to fill a critical gap in the Bank's increasing activities within climate change mitigation and adaptation by providing support directly to small and medium scale entrepreneurs in the renewable energy and energy efficiency (RE/EE) subsectors.

The Scaling Up Renewable Energy Program in Low Income Countries (SREP) is a program under the Strategic Climate Fund, one of the two the Climate Investment Funds (CIF), that aims to develop renewable energy in the context of poverty reduction. The Bank is actively supporting African pilot countries Ethiopia, Kenya and Mali as they develop their SREP investment strategies.

Hela Cheikhrouhou
ONEC Director

Two reasons to seek SEFA

SEFA is designed to promote sustainable, private sector-led economic growth in African countries through the efficient utilization of and access to RE resources. It offers RE/EE project sponsors two financing windows:

1. Support of AfDB Renewable Energy Funding

This SEFA component aims to increase AfDB lending to entrepreneurs in independent RE production by reducing project preparation costs.

More specifically, it will finance part of the due diligence costs of project preparation—from pre-feasibility to financial closure—for RE generation projects near or just below the AfDB's lower lending threshold.

Who can benefit? AfDB task managers of RE private sector operations and the associated project sponsors.

2. Support and Investment in Renewable Energy and Energy Efficiency SMEs

This SEFA component will provide investment, grants and technical assistance to develop technical, managerial, commercial and financial aspects of SMEs in the field of RE/EE.

Funds allocated to this component will be contributed to a private equity fund whose management will be outsourced to a fund management company through a competitive tendering process.

Who can benefit? Sponsors of greenfield SMEs in the RE/EE subsector or brownfield SME expansion projects in the RE/EE subsector.

Why renewables?

Renewable energy (RE) systems in Africa offer a sustainable path towards energy supply, energy security and economic development while contributing to climate change mitigation efforts.

Grid-connected, mini-grid and stand-alone RE systems complement and enhance conventional energy systems in providing reliable and affordable electric power to businesses and households, and to extend power supply to remote areas.

Moreover, there is an untapped potential for energy efficiency (EE) initiatives that could be exploited by SMEs, like rational use of process energy, heat recovery and the development of high efficiency processes.

SEFA snapshot

Goal: to improve growth prospects for SMEs through reliable and environment-friendly energy supply

Co-benefit: to create increase in labor demand by enhancing beneficiary enterprises' productivity and cost effectiveness

Denmark will contribute up to DKK 300 million (USD 58 million) in untied resources

Expected to evolve into multi-donor fund

Approved by Danida in December 2010

Expected to go before the AfDB Board of Directors in the coming months

To be implemented by ONEC with support from OPSM, ORRU and an internal technical committee

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Patience... SEFA and SREP are expected to be available for commitment in late 2011.

SREP: spurring economic growth via RE

Scaling Up Renewable Energy Program in Low Income Countries (SREP), one of the programs under CIFs' Strategic Climate Fund (SCF), was created to demonstrate the **economic, social and environmental viability of low carbon development pathways** in the energy sector of the world's poorest countries by **creating new economic opportunities** and **increasing energy access** through the use of renewable energy (RE).

SREP can provide **policy support** and **technical assistance** to develop national renewables strategies. It can also **underwrite additional capital costs and risks** associated with RE investments and other instruments for reducing risk to investors. Eligible investments include:

- RE technologies: solar, wind, bio-energy, geothermal and small hydro below 10 MW
- RE deployment applications: electricity generation, thermal applications, mechanical operations
- Technology modes: national/regional grid connected, off-grid, stand alone or distributed generation
- Interconnection improvements related to RE scale up programs

With pledges of USD 318 million, SREP is active in six pilot countries worldwide, including three in Africa with significant RE potential: Ethiopia, Kenya and Mali.

The Bank is supporting each of these nations as they coordinate with their respective private sectors, civil societies and other communities to **develop SREP investment strategies**. Depending on the final investment strategy, Ethiopia and Kenya could benefit from up to USD 50 million and Mali up to USD 40 million in SREP financing, while leveraging much more from MDBs and other financiers, including bilateral donors.

To further enhance investments, **the AfDB expects to co-finance approved SREP projects** from its own resources in addition to channeling SREP funds.

Ethiopia

With just 2% rural access to electricity but enormous potential for hydro, geothermal and solar energy generation, Ethiopia was selected to become a SREP pilot.

Experts indicate that the country stands to benefit largely from hydro development and geothermal exploitation, which can draw on Kenya's experience in the subsector. Off grid solar photovoltaic (PV) potential has been demonstrated and could be unlocked with access to financing and minor regulatory improvements.

Kenya

While Kenya has only 5% rural access to electricity, its private sector is active in all RE subsectors and is expected to respond positively to new incentives geared towards scaling up RE. Kenya has growing IPP experience, notably in geothermal and wind, and a large unsubsidized solar PV market.

Kenya plans to present its SREP investment strategy by June 2011.

Mali

Mali has less than 4% rural access to electricity; however, its sound institutional base for RE implementation, particularly in solar, and positive track record in developments to date make Mali a viable SREP pilot. Mali demonstrates potential for the productive use of RE in agriculture and small commercial entities, and sustainable biomass and biodiesel programs are in place.

Mali plans to present its SREP investment strategy in June 2011.

CIF @ the Bank

The Climate Investment Funds (CIF) are CTF and SCF

AfDB channeling **Clean Technology Fund (CTF)** financing to Egypt, Morocco, Nigeria, South Africa and MENA program

AfDB channeling **Strategic Climate Fund (SCF)** financing through three programs:

- Pilot Program for Climate Resilience (PPCR) in Mozambique, Niger and Zambia
- Forest Investment Program (FIP) in Burkina Faso, Democratic Republic of Congo and Ghana
- Scaling Up Renewable Energy Program in Low Income Countries (SREP) in Ethiopia, Kenya and Mali

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AfDB to host 2011 CIF Partnership Forum

The 2011 CIF Partnership Forum,



originally scheduled to take place in Tunis from 14-18 March 2011, will be moved to an alternative date and African venue. The AfDB will still host the event, and updates are forthcoming.

This annual gathering is for all stakeholders to engage in dialogue on the CIFs' strategic directions, results and impacts. Sessions will cover private sector engagement, scientific updates and guidance on prioritizing actions, climate modeling, and the development of local manufacturing industries. Approximately 450 people are expected to attend, including high-level officials from government, MDBs and other institutions.

Next issue...

Pilot Program for Climate Resilience (PPCR)

The AfDB is channeling PPCR financing to Niger, Mozambique and Zambia to mainstream climate resilience in sector plans and projects.