GEF-6 GEF SECRETARIAT REVIEW FOR FULL-SIZED/MEDIUM-SIZED PROJECTS THE GEF/LDCF/SCCF TRUST FUND

GEF ID:	**9043**		
Country/Region:	**Regional (Africa)**		
Project Title:	**Investing in Renewable Energy Project Preparation under the Sustainable Energy Fund for Africa (SEFA)(non-grant)**		
GEF Agency:	**AfDB**	GEF Agency Project ID:	
Type of Trust Fund:	**GEF Trust Fund**	GEF Focal Area (s):	**Climate Change**
GEF-6 Focal Area/ LDCF/SCCF Objective (s):		**CCM-1 Program 1;**	
Anticipated Financing PPG:		Project Grant:	**$10,000,000**
Co-financing:	**$955,000,000**	Total Project Cost:	**$965,000,000**
PIF Approval:		Council Approval/Expected:	
CEO Endorsement/Approval		Expected Project Start Date:	
Program Manager:	**David Elrie Rodgers**	Agency Contact Person:	**Joao Cunha Duarte**

PIF Review

Review Criteria	Questions	Secretariat Comment	Agency Response
Project Consistency	1. Is the project aligned with the relevant GEF strategic objectives and results framework?[1]	DER, March 6, 2015. Yes. This project is aligned with GEF-6 focal area objective CCM-1, Program 1, Promote the timely development, demonstration, and financing of low carbon technologies and mitigation options.	N/A
	2. Is the project consistent with the recipient country's national strategies and plans or reports and assessments under relevant conventions?	DER, March 6, 2015. Yes. This is a regional project that will support the Sustainable Energy for All initiative and the Sustainable Energy Fund for	N/A

[1] For BD projects: has the project explicitly articulated which Aichi Target(s) the project will help achieve and are SMART indicators identified, that will be used to track the project's contribution toward achieving the Aichi Target(s)?

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		Africa. Investments in project development under the project will be conducted in countries that have documented strategies and plans that encourage sustainable energy investments.	
Project Design	3. Does the PIF sufficiently indicate the drivers[2] of global environmental degradation, issues of sustainability, market transformation, scaling, and innovation?	DER, March 6, 2015. Yes. The proposal describes the barrier to building a robust project pipeline for renewable energy projects even when sufficient debt financing is available. The challenge is that first-time and small project developers often do not have the capacity to create strong proposals for bankable projects. Without bankable projects for clean energy, investors take funding elsewhere, translating into fewer sustainable energy projects and greater reliance on conventional sources of energy and resulting greenhouse gas emissions. This problem is particularly persistent in Africa.	N/A
	4. Is the project designed with sound incremental reasoning?	DER, March 6, 2015. The project proposes to create the first of its kind reimbursable grant project preparation facility. The innovative approach of this proposal is to create a project preparation facility that will be reimbursed by successful project developers. This allows the facility to	

[2] Need not apply to LDCF/SCCF projects.

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		become financially sustainable over time and continue to fund many additional project preparation investments. If this approach proves viable, it would lead to significant expansion of bankable projects which would attract equity and debt financing, leading to faster development of low-carbon energy production. Please respond to the following comments: a) The baseline scenario identifies how USD 9.1 million of grant funding help provide critical project preparation assistance leading to 311 MW of new capacity and attracting USD 817 in total investments. Therefore, we would expect a GEF funding request of USD 10 million to achieve a similar level of assistance, capacity and potential funding. In fact, with a reimbursable grant that assumes the potential for financial recycling, an even larger number of projects could be expected. Yet in Table B and C, the co-financing levels described fall well short of those numbers. Please clarify how many projects will be assisted and what is being included in the proposed co-financing and please consider including the eventual total	

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		investment for successfully prepared projects, as appropriate. b) Geothermal projects pose significant drilling risk. We would strongly encourage investments in geothermal project developers to be a very low priority or excluded from the investment portfolio. We do not think this project preparation facility may be best suited to early stage drilling projects, and developers who have already achieved drilling success will not likely need SEFA assistance to create a bankable project. Please clarify. c) The options for recovery are relatively extensive, and perhaps too complicated for this pilot. With such a diverse set of options, we are not confident that AfDB can provide, and comply with, an estimated schedule of reflows to the GEF Trust Fund. Please clarify if a simpler set of options can be considered. d) Also, please clarify the expected reflow of principal and interest to the GEF, including a timeline specifying, in principle, when the expected payments would be made to the GEF Trust Fund.	

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		e) Please clarify what is meant by the financing terms comment on page 9 which reads: "Projects will be assessed on a case-by-case basis, and the principle of reimbursable grants (to be determined but not less than 80%) will be applied. All projects will not be offered the same % of reimbursement." However, the GEF is expecting that the pilot will be designed to return the full principal plus an appropriate investment return to the GEF Trust Fund, acknowledging, of course, that there is some risk involved in project developers possibly failing to achieve financial closure. Yet is unclear how partial reimbursement of project development grants by the project developers can lead to full recovery of GEF non-grant resources? f) Please describe the proposed approach for dealing with project developers that are not on track to succeed. Does the SEFA secretariat have means for intervening to help project developers? g) In order to quality for GEF funding, specific investments must be in full compliance with GEF strategic focal area objectives covered by this project as specified in Table B. The	

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		GEF Partner agency has three options for obtaining GEF Secretariat concurrence: 1) In advance, under Option 1 on page 9, paragraph 52, of GEF/C.42/Inf.08, Operational Modalities for Public Private Partnership Programs; 2) Concurrent - prior to each investment decision under Option 2; or 3) Hybrid combination of option 1 and option 2 where option 2 is used on special types investments. Please specify which option the Agency will pursue. If Option 1 is selected, please describe how the agency and its investment partners will ensure investments meet these criteria. DER, March 24, 2015. a) Co-financing has been adjusted upward to reflect the likely leverage ratio from successful project preparation. Comment cleared. b) Noted, and geothermal is excluded. Comment cleared. c) Revised and three simpler grant recovery options are proposed. Comment cleared. At the time of CEO endorsement, please provide additional specification and precision on recovery options. d & e) The risk issue has been addressed. However, the response indicates that all preparation grants	

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		will be refunded for principal only, no interest. This is not the understanding GEF had regarding the project proposal and will make the project uncompetitive for the non-grant pilot. It was the GEF understanding that when the project was financed, the financed amount would be sufficient to cover the project preparation grant plus a suitable return. The alternative proposed by the agency for "grant converted into equity" would have a return pari-passu with the agency. This would meet the requirements of the non-grant pilot. The project can proceed only under the condition the agency agrees that all project preparation grants will include a reflow that includes both principal and a suitable return. Please revise and resubmit, providing an estimate for a suitable return. f) SEFA does have some options for intervening. At CEO endorsement, please supply more detail on how SEFA will intervene to protect the preparation grant and ensure maximum repayment. g) Agency has selected Option 1. Comment cleared. DER, April 21, 2015. d) The remaining issue relates to the an estimate for a suitable return. The	

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		agency response added an interest rate return option on page 11, Table 1. The proposal estimates a potential 2%-5% return after 12 years. The proposal needs significant additional thinking and clarification. DER, July 17, 2015. d) The response is quite helpful, showing multiple scenarios for potential cost and earnings recovery. The revenue model shows options for different choices depending on the number of times funds will be recycled. On page 11-13 of the revised PIF there is a helpful description of the project selection criteria and process. Please note that GEFSEC will delegate to AfDB all project grant selection; we do appreciate the offer to provide information as each grant is selected. As stated in the PIF, the revenue model options will be further studied prior to CEO endorsement. In particular it would be valuable to compare the success rate of traditional SEFA project preparation grants and the proposed approach. Comment cleared.	
	5. Are the components in Table B sound and sufficiently clear and appropriate to achieve project objectives and the GEBs?	DER, March 6, 2015. No. Please address the following comments: a) The project objective is somewhat confusing. Consider the following	

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		amendment. "To attract and accelerate investment in renewable energy projects by piloting the use of reimbursable grants for the Sustainable Energy Fund for Africa (SEFA) project preparation window." b) The entry of $75,000,000 in the co-financing column for Table B does not match with the total of $70,000,000. Please clarify and ensure that numbers are consistent throughout the PIF. c) Project management costs should be zero for non-grant investments. That is, all GEF Partner Agency expenses should be covered by the agency fee. All management expenses of the fund partner should be covered under the fund structure. Please revise and resubmit with corrected sub-totals. d) The project component description in the first column of Table B is not descriptive. Please align with the language at the bottom of page 7, such as "Pilot the use of reimbursable grants for renewable energy project preparation." e) On page 9, the document presents emissions benefits of 110,000 tons	

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		CO2 per year. On page 3 the document presents emissions benefits of 1,100,000 tons CO2. Please clarify the emissions benefits estimate. f) Please propose project timelines including the following: 1) expected date for submission of CEO endorsement 2) expected date for complete investment of all GEF funding 3) expected duration for the GEF project with expected dates for mid-term review, project completion, and submission of the terminal evaluation. 4) expected lifetime of the investments and whether these will continue after the project completion date. 5) schedule of reflows, including an indicative timeline specifying when the expected payments would be made to the GEF Trust Fund. DER, March 24, 2015. a) Project objective has been changed to: To attract and accelerate investment in renewable energy projects by piloting the use of reimbursable grants for the Sustainable Energy Fund for Africa (SEFA) project preparation window. Comment cleared. b) Correct. Comment cleared.	

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		c) Corrected. Comment cleared. d) Corrected. Comment cleared. e) Clarified as 1.1 million tons over project period. However, this figure appears quite low for the amount of power in the pipeline (580 MW) and the investment mobilized under the program. Please clarify the methodology and resubmit with a more realistic estimate. f) Proposal is for return of GEF funding in 2025 at the end of the program life. At the time of CEO endorsement, please present a revised approach that begins reflows to the GEF as soon as the grants are no longer needed in the project preparation facility. DER, April 21, 2015. e) The estimate has been revised. CO_2 emissions have been clarified based on project time frame (3.8 million tons CO_2 avoided). Comment cleared.	
	6. Are socio-economic aspects, including relevant gender elements, indigenous people, and CSOs considered?	DER, March 6, 2015. Yes. These aspects are well described in the proposal.	N/A
Availability of Resources	7. Is the proposed Grant (including the Agency fee) within the resources available from (mark all that apply):		
	• The STAR allocation?	DER, March 6, 2015. This project requests funding from the non-grant	N/A

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Review Criteria	Questions	Secretariat Comment	Agency Response
		pilot. Sufficient funding is available for this project if it is proposed for work program inclusion.	
	• The focal area allocation?	DER, March 6, 2015. NA	
	• The LDCF under the principle of equitable access	DER, March 6, 2015. NA	
	• The SCCF (Adaptation or Technology Transfer)?	DER, March 6, 2015. NA	
	• Focal area set-aside?	DER, March 6, 2015. NA	
Recommendations	8. Is the PIF being recommended for clearance and PPG (if additional amount beyond the norm) justified?	DER, March 6, 2015. Not at this time. Please address the comments pertaining to questions 4 and 5. DER, March 24, 2015. Not at this time. Please address the remaining comments in Box 4, comment d) and Box 5, comment e) DER, April 21, 2015. The agency responded to the comments. Before technical clearance, it would be beneficial to have additional clarifications: a) The remaining issue relates to the an estimate for a suitable return. The agency response added an interest rate return option on page 11, Table 1. The proposal estimates a potential 2%-5% return after 12 years. The proposal needs significant additional thinking and clarification. We are not confident that the structure for such an approach has been well developed.	

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		b) Please supply a revenue model c) Please clarify on the proposal to hire an investment officer. Would this officer be in charge of the existing team or an addition to the team? d) Would this project be better suited to conduct a small pilot to validate the approach rather than a full sized project? e) Please supply additional information on the current pipeline to better understand how quickly and at what size the project preparation grants would be requested. f) Regarding the successful project preparation funded by grant - please describe which of these has been financed and provide the financing details. DER, July 17, 2015. a) The revenue model provided provides significant additional detail. Comment cleared. b) Comment cleared. c) New investment officer to be part of the team. Comment cleared. d) The AfDB believes there is no need for a small pilot based on the track record with non-reimbursable grants. Comment cleared. e) Thank you for the information on the pipeline. Please remember GEF funding for hydropower is limited to	

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		small hydropower projects.We note that the average SEFA non-reimbursable grant is $900,000, but the proposed average reimbursable grant is $600,000 and the maximum $1 million. At time of CEO endorsement, please clarify the expectations for reimbursable grant size. Comment cleared. f) If we understand the response, SEFA is still young and "it is still too soon to talk about successful project preparation grants." Therefore, this raises some concern about the potential risks faced by the proposed GEF project. In your revenue model scenario, you estimate that 80% of the projects funded will reach close. Please supply additional information on the foundation/justification for this estimate and benchmark to other project preparation funds. Project is not cleared at this time. Please address remaining question in box 8 (f). DER, August 6, 2015. The response indicates that the SEFA facility is still quite young, only being established in 2012. However, enough information is available for the agency to assert that proposed revenue model is realistic and justified. Further, the	

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		agency proposes that only projects at mid-to final stage, after project viability is confirmed and licensing/permitting is advanced, will be considered for this GEF funding. Also, only mature technologies (e.g. solar and wind) for projects led by well-established and "credit worthy" sponsors will be supported. Comment cleared. The program manager recommends CEO PIF clearance. Notes for CEO endorsement: a) Please supply more detail on how FIRST will intervene to protect the preparation grant and ensure maximum repayment. b) Update the GHG emissions calculation. c) As stated in the PIF, the revenue model options will be further studied prior to CEO endorsement. In particular it would be valuable to compare the success rate of traditional SEFA project preparation grants and the proposed approach. Comment cleared d) Please clarify the expectations for reimbursable grant size.	
Review Date	Review	March 06, 2015	
	Additional Review (as necessary)	March 24, 2015	

PIF Review			
Review Criteria	Questions	Secretariat Comment	Agency Response
	Additional Review (as necessary)	April 21, 2015	

CEO endorsement Review			
Review Criteria	Questions	Secretariat Comment at CEO Endorsement	Response to Secretariat comments
Project Design and Financing	1. If there are any changes from that presented in the PIF, have justifications been provided?		
	2. Is the project structure/ design appropriate to achieve the expected outcomes and outputs?		
	3. Is the financing adequate and does the project demonstrate a cost-effective approach to meet the project objective?		
	4. Does the project take into account potential major risks, including the consequences of climate change, and describes sufficient risk response measures? (e.g., measures to enhance climate resilience)		
	5. Is co-financing confirmed and evidence provided?		

CEO endorsement Review			
Review Criteria	Questions	Secretariat Comment at CEO Endorsement	Response to Secretariat comments
	6. Are relevant tracking tools completed?		
	7. *Only for Non-Grant Instrument:* Has a reflow calendar been presented?		
	8. Is the project coordinated with other related initiatives and national/regional plans in the country or in the region?		
	9. Does the project include a budgeted M&E Plan that monitors and measures results with indicators and targets?		
	10. Does the project have descriptions of a knowledge management plan?		
Agency Responses	11. Has the Agency adequately responded to comments at the PIF[3] stage from:		
	• GEFSEC		
	• STAP		
	• GEF Council		
	• Convention Secretariat		
Recommendation	12. Is CEO endorsement recommended?		
Review Date	Review		
	Additional Review (as necessary)		
	Additional Review (as necessary)		

[3] If it is a child project under a program, assess if the components of the child project align with the program criteria set for selection of child projects.