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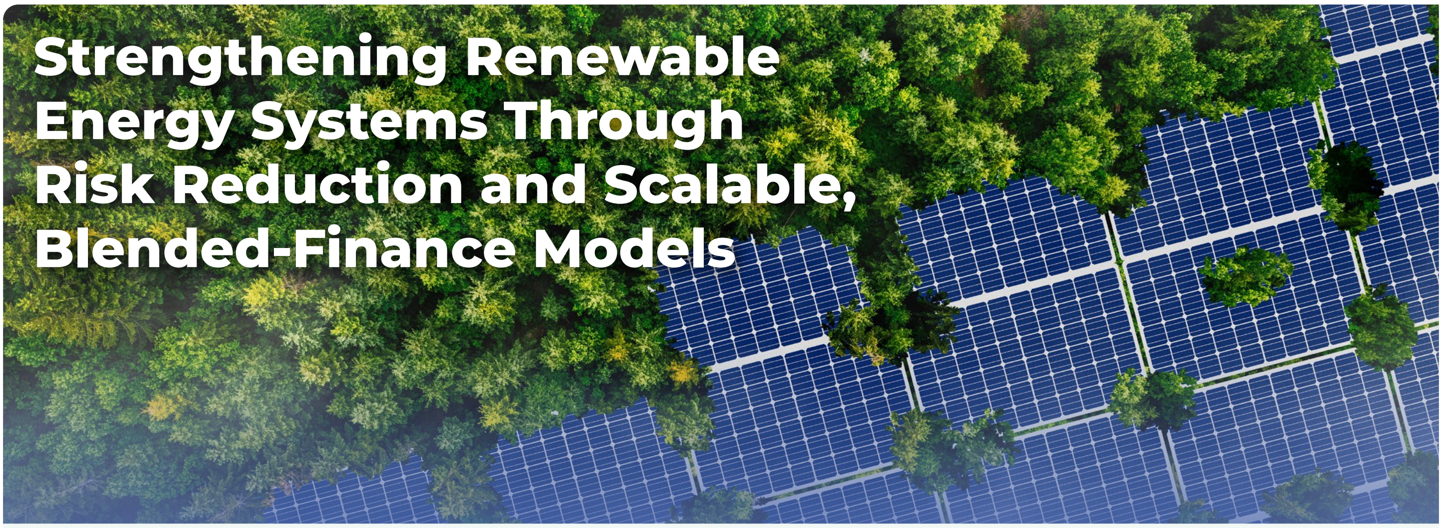

Strengthening Renewable Energy Systems Through Risk Reduction and Scalable, Blended-Finance Models

The Sustainable Energy Fund for Africa (SEFA), managed by the African Development Bank (AfDB), supports the expansion of clean energy across Sub-Saharan Africa by reducing investment risks and creating a stronger policy environment.

Findings from the ARCAN Midline Evaluation confirm SEFA's strong relevance to regional renewable-energy needs while highlighting a need for clearer articulation of how SEFA's activities translate into long-term impact. This technical assistance examines two examples of SEFA's work – the COVID-19 Off-Grid Recovery Platform (CRP) and the AfricaGoGreen Fund (AGGF) – to understand how SEFA contributes to derisking[1] investments, mobilising private finance, and supporting sustainable clean energy infrastructure across Africa.

SEFA Investments Help Reduce Risk and Strengthen Renewable-Energy Supply

SEFA's concessional finance[2] through CRP enabled off-grid companies to continue operations amid severe COVID-19 market disruption. This support helped partner funds continue lending at affordable rates so that off-grid energy companies could keep operating. Many investments supported through CRP would not have happened without SEFA because they were considered too risky. As of 2025, CRP has generated 30 MW of installed capacity, enabled 1.2 million new connections benefiting 6.1 million people, reduced emissions by 1,090,095 tonnes of carbon dioxide equivalent (tCO_2e), and supported more than 800 new jobs – 345 held by women.

In AGGF, SEFA's provision of first-loss capital[3] reduced perceived risk for senior equity and senior debt providers,[4] thereby reassuring investors and lenders by lowering the overall cost of capital. SEFA and the AfDB played an early market-building role through a US$1 million grant supporting the development of the Facility for Energy Inclusion (FEI) and the Off-Grid Energy Access Fund (OGEF), some of the first dedicated small-scale renewable-energy debt financing vehicles in Africa. As of 2024, AGGF investments have enabled 60 MW of new capacity, 20,122 direct jobs, and 463,053 households and 2.3 million people connected to electricity, clean cooking and/or green appliances.

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SEFA Mobilises Additional Finance Under Difficult Market Conditions

SEFA's CRP investment of US$27 million helped attract US$13 million from the Global Environment Facility, US$80 million in private investment, and US$140 million in additional company-level capital. This was especially important during the pandemic when investor confidence was low. AGGF benefits from a strong equity capital structure, including an US$80 million junior equity[5] tranche provided by four investors, one of which is SEFA (US$10 million). This structure enabled the fund to raise an additional US$45 million in ordinary equity,[6] US$40 million in senior debt, and US$145 million in additional company borrowing. Although SEFA's US$10 million equity investment was not the main driver of the initial fundraising, its involvement added credibility and helped attract other investors.

Despite progress, both CRP and AGGF faced challenges common to many climate-related blended finance[7] initiatives in Africa. Equity markets remain small and underdeveloped, and companies often face high business risks due to limited market maturity. Some of the key risks moving forward include macroeconomic risks in Africa's nascent energy access markets and business risks associated with fairly early-stage companies facing unforeseen challenges. Some of these risks are reduced through strong reporting, investor oversight, and SEFA's continued engagement.

Footnotes

1. Strategies or mechanisms that reduce, mitigate, or manage investment risk.
2. Below-market financing provided by public/DFI/philanthropic actors to enable high-impact investments.
3. Junior or concessional capital that absorbs losses first in blended-finance structures.
4. Senior debt is repaid first in the event of default and thus carries lower risk.
5. Equity capital that is contractually or structurally subordinated to other equity or debt tranches, absorbing losses ahead of senior equity or debt and often used as risk-absorbing capital in blended finance structures.
6. Financing ranking between debt and common equity.
7. The strategic use of development finance to mobilise additional commercial finance towards sustainable development objectives, by improving the risk-return profile of investments.
8. A hybrid form of finance that sits between senior debt and equity in the capital structure, typically taking the form of subordinated debt or preferred equity and carrying higher risk and return than senior debt but lower than equity.

Potential for Long-Term Scalability and Sustainability

CRP expanded its support through multiple partner funds, allowing it to reach more companies and countries while offering different types of financial solutions. Its design also allowed it to grow from US$20 million to US$40 million in concessional finance. Given the lack of market maturity and gaps in the enabling environment, mezzanine instruments[8] are not a complete solution. However, they have been critical in enabling continued company operations during critical periods. AGGF shows similar potential by targeting smaller, underserved markets and offering flexible credit options. Its Technical Assistance Facility (TAF) supports companies to strengthen their business models, while expected dividend payments from 2028/29 will help maintain long-term viability. Its 15-year fund structure gives companies time to grow and markets time to mature.

RECOMMENDATIONS

- **SEFA should develop a clear, visual Theory of Change** explaining how SEFA's investments help reduce risk and attract other funders.
- **SEFA and its donors should also communicate successes more widely** – for example by publishing stories about successful renewable energy investments to build investor confidence.
- **SEFA and donors should strengthen collaboration with African governments** to encourage greater local co-investment, especially from pension funds helping to build stronger and more sustainable financing markets for renewable energy in Africa.

The Midline Evaluation Summary Report and full case studies will be available at: DevTracker Programme GB-GOV-1-300808 Documents and the Ecorys website at: World-class research-based consultancy | Ecorys

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