

# **The role of the African Development Bank in delivering renewable energy investments in Africa**

Policy paper

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## List of acronyms

<b>AfDB</b>	Africa Development Bank
<b>CSO</b>	Civil society organisation
<b>EAC</b>	East African Community
<b>EAPP</b>	Eastern Africa Power Pool
<b>ECOWAS</b>	Economic Community of West Africa States
<b>GDC</b>	Geothermal Development Company
<b>IPP</b>	Independent power producer
<b>KETRACO</b>	Kenya Electricity Transmission Company
<b>KPLC</b>	Kenya Power and Lighting Company
<b>PPA</b>	Power purchase agreement
<b>SADC</b>	Southern Africa Development Commission

## Executive summary

The African Development Bank (AfDB) is a regional development finance institution which, according to its own records, approved energy projects worth \$4.5 billion between 1967 and 2008. The bank financed both fossil fuel and renewable energy projects but in 2015 embarked on a High 5 strategy<sup>1</sup> with an aim to power Africa through a New Deal on Energy for Africa. The New Deal has resulted in significant deployment of financing for renewable energy projects, through sovereign and non-sovereign guaranteed loans.<sup>2</sup> AfDB has also partnered with the African Union through the Africa Renewable Energy Initiative to increase renewable energy capacity to 300GW by 2030. However, the bank is still funding an offshore gas project in Mozambique.

An analysis of the bank's projects between 2015 and 2023 found that AfDB invested in projects worth UA 6,367 million. The analysis established that UA 477 million (7.5%) went to projects supporting non-renewable energy sources and UA 4,926 million (77.37%) went to renewable energy projects. A further UA 590 million (9.28%) went to technical assistance<sup>3</sup> and UA 372 (5.85%) to incentives, also for renewable energy projects.<sup>4</sup> Most of the projects funded by the bank throughout Africa were focused on grid enhancement at 56.17%. Gas projects received 7.44% of the total financing during the period, while coal projects received 0.06%. The coal project was delivered through non-sovereign financing, while most of the technical assistance was sovereign. All the grid enhancement projects were delivered through sovereign mechanisms while most of the renewable energy projects (solar mini grids, solar PV, hydropower and geothermal) were delivered through non-sovereign mechanisms (102 of 123 projects). Four-fifths of projects (80%) were funded through sovereign mechanisms while a fifth (20%) were non-sovereign.

Technical assistance initiatives included projects such as setting up a public-private partnership unit in the Kenyan government, capacity building on renewable energy to the Southern African Power Pool, preparatory studies and strengthening regulatory mechanisms. West and Southern Africa were host to the greatest number of these projects.

In terms of project financing, grid enhancement received the largest chunk of funding with the least going to clean cooking. From the analysis, there are no off-grid projects prioritised for last mile communities in these regions, as all grid enhancement and renewable energy projects are positioned to increase access to grid-powered electricity.

Kenya's Menengai Geothermal Project was partly funded by the AfDB, with the Kenyan government opting to work with three independent power producers. The project has been riddled with challenges like a power purchase agreement (PPA) that is opaque, detrimental de-risking project measures in the PPAs, and safeguarding issues that have led to one of the independent power producers being taken to the National Environmental Tribunal by local communities. These issues are analysed, and practical policy recommendations provided, in this policy paper. The paper further analyses regional energy policies and their enablers for increased renewable energy investments while comparing them with provisions for renewable energy in the AfDB's Regional Integration Strategy papers. Some regional energy strategies are still calling for investment in fossil fuels, an issue that requires greater scrutiny and change.

In addition to greater transparency of information on bank energy investments, the analysis in this policy paper calls for increased sovereign and people-centred renewable energy investments on the continent by the AfDB.

## Introduction

The **African Development Bank** (AfDB) is a regional development finance institution that was established in 1963. The AfDB Group comprises three entities: the AfDB, the African Development Fund and the Nigeria Trust Fund. The latter two are concessional windows for the bank which came into effect in 1972 and 1976 respectively. The bank began funding projects in 1966, and between 1967 and 2008 **approved projects worth \$4.5 billion** to the energy sector.

Energy is central to Africa's future development and the AfDB indicated that it is spearheading efforts to unlock Africa's vast renewable energy potential. In 2019, the **bank's President pronounced that it no longer funds coal** and has increased funding of renewable energy projects since the **New Deal on Energy for Africa** was signed and launched in 2016. Its aim is to achieve universal energy access, with priority given to low-carbon technologies which 'harness the abundant, renewable energy resources of the continent by the year 2025'. This came after the African Union and the **AfDB launched the Africa Renewable Energy Initiative in December 2015 on the side lines of COP21 in Paris**, to 'increase and accelerate domestication of the continent's renewable energy potential' with an aim to mobilise partners to produce 300GW of electricity from renewable sources by 2030. In addition to this initiative, at the Africa Climate Summit 2023, Kenya partnered with Denmark, Germany and the United Arab Emirates to launch the **Accelerated Partnerships for Renewable Energy in Africa** which also aims at realising 100% renewables by 2030 for green industry. Other partners of the initiative are Ethiopia, Namibia, Rwanda, Sierra Leone and Zimbabwe. It is **also supported by the International Renewable Energy Agency with three key pillars**: mobilising finance, technical assistance and capacity building, and engaging the private sector. It is unclear what role the bank plays in the Accelerated Partnerships for Renewables in Africa.

Christian Aid commissioned an analysis of bank investments in renewable energy projects and fossil fuels from 2015 to 2023, which found that 77.37%<sup>5</sup> of AfDB's power generation projects have been in renewables, including grid enhancement, solar PV, solar mini grids, geothermal, hydroelectricity and clean cooking. A further 15.13% of AfDB's power generation projects have been in incentives and technical assistance initiatives for renewable energy projects. AfDB, however, continues to finance gas projects in cases where, according to the bank, these make huge impacts on the economies and livelihoods of member countries and local communities. During this period, AfDB financed five gas projects and one coal project corresponding to 7.5% of total investment in non-renewables.

This policy paper highlights trends and socioeconomic impacts of sovereign and non-sovereign AfDB investments in renewable energy and fossil fuels in Africa for the period 2015 to 2023, and using a case study of Kenya, outlines key socioeconomic challenges in AfDB renewable energy investments. It uses these to draw policy recommendations to increase people-centred renewable energy investments in Africa.

## AfDB renewable energy financing and trends

### Sovereign and non-sovereign financing

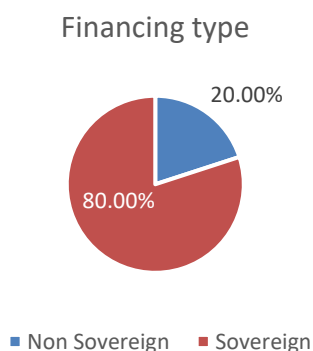
AfDB financing fall into two categories: sovereign guaranteed loans and non-sovereign guaranteed loans.

**Sovereign financing/sovereign guaranteed loans** are loans made to a regional member country or to a public sector enterprise within a member country that is fully supported (including with credit) by its state. To receive sovereign financing, the state must provide a 'sovereign guarantee' that the enterprise is commercially viable and operating under sound a business model and governance framework (ie, a de-risking measure).

**Non-sovereign financing/non-sovereign guaranteed loans** are loans made to public and private sector enterprises in regional member countries that meet eligibility requirements – and do not require a sovereign guarantee by the state. A non-sovereign guaranteed loan guarantees de-risking. For example, private companies can protect their investments through clauses in loan agreements on issues like foreign exchange earnings from export of power or by stating that they would start repayments when they are profitable.

Between 2015 and 2023, most (80%) of the energy projects in Africa were funded through the sovereign financing mechanism of AfDB while the rest (20%) were funded through the non-sovereign mechanism. This implies that most regional member countries are in AfDB's sovereign portfolio, which provides non-concessional and concessional loans, grants and technical assistance to low- and middle-income governments.<sup>6</sup> This is aligned to the development objectives of AfDB of supporting regional member countries through concessional funding to deliver better services to their citizens while mitigating investment risk. Concessional loans may be below market interest rates, with grace periods in which loan recipients (regional member countries) are not required to make debt payments for several years or a combination of low interest rates and grace periods.

**Figure 1:** AfDB's funding of energy projects in Africa by mechanism, 2015–2023.



On the other hand, 20% of energy projects in Africa have been developed with non-concessional loans by AfDB with market-based interest rates. Through non-concessional loans, the regional member countries risk facing unsustainable debt levels without fiscal space for priority development expenditure.

## Trends in sovereign and non-sovereign financial flows

Table 1 summarises AfDB commitments to Africa's energy sector (renewables and fossil fuels) by technology over the period 2015–2023. The total commitment for the period was units of aid (UA) **6,367 million**.<sup>7</sup> It is important to note that the commitment to coal was made before the New Deal for Energy in Africa launched in 2015.

**Table 1:** Summary of AfDB's commitments to Africa's energy sector by type and technology, 2015–2023.

Energy type	No of projects	Commitment (UA millions)	% of total commitment
Coal	1	4	0.06
Gas	5	473	7.44
<b>Subtotal non-renewable</b>		<b>477</b>	<b>7.50</b>
Clean cooking	1	0.6	0.01
Geothermal	4	42	0.67
Grid enhancement	69	3,576	56.17
Hydro power	26	816	12.82
Solar mini grids	6	86	1.37
Solar PV	18	403	6.33
<b>Subtotal renewable</b>		<b>4,926</b>	<b>77.37</b>
Incentives	15	372	5.85
Technical assistance	45	590	9.28
<b>Total</b>	<b>190</b>	<b>6,367</b>	<b>100</b>

The greatest proportion (56.17%) of the bank's investment in the energy sector is in grid enhancement followed by hydropower at 12.82% and technical assistance at 9.28%, gas at 7.44%, solar PV at (6.33%), with clean cooking receiving the least amount of investment. Many states had plans to increase access to electricity thus the greater proportion of financing went to grid enhancement infrastructure across Africa.

The technical assistance projects include improving monitoring of household electricity consumption through a pre-paid metre programme in Guinea; technical assistance through capacity building of financial institutions in funding distributed renewable energy projects by the Southern Africa Power Pool; technical assistance to the Government of Kenya through the Kenya Electricity Transmission Company (KETRACO); creation of a Public Private Partnership Unit at the National Treasury, the Ministry of Energy and Electricity regulator. Of the 45 technical assistance initiatives, 40 were sovereign.

The Paris Agreement was ratified in 2015, and countries began to develop their Nationally Determined Contributions at the same time. While this study did not look at the connection, this was an important factor for the AfDB at the time, and different regional integration strategies refer to this.



## Socioeconomic impacts of AfDB financing in Kenya

This section focuses on an example country, Kenya, to highlight important socioeconomic challenges in AfDB renewable energy investments.

Most of the projects financed by AfDB in Kenya from 2015 to 2023 were focused on grid enhancement and increasing connectivity to the national grid.

In Kenya, there were no large-scale renewable energy mini grid projects financed by the bank between 2015 and 2023. Table 2 summarises the projects implemented in Kenya addressing energy poverty financed by AfDB during the period.

**Table 2:** Projects implemented in Kenya between 2015 and 2023

Project	Financing	Implementing agency	Value (UA millions)	Location
Kenya-Tanzania Power Interconnection Project	Sovereign	KETRACO, TANESCO	75	Isinya Kenya to Singida Tanzania
Kenya Transmission Network Improvement Project	Sovereign	KETRACO	45	Kabarnet to Rumuruti, Narok to Bomet and Weru to Malindi and Kilifi
Kenya - Public Private Partnerships in Transmission Lines	Non-sovereign	KETRACO	0.3	Across Kenya
Last Mile Connectivity Project II	Sovereign	Kenya Power and Lighting Company (KPLC)	101	Across Kenya
Quantum Power-Menengai Geothermal Power Project	Non-sovereign	QPEA GT Menengai Limited	22	Menengai, Nakuru County.
Kopere Solar Power project	Non-sovereign	Kopere Solar Park Ltd	13	Kimwani, Nandi County
Kenya - Development of a utility-run Super ESCO	Sovereign	KPLC	0.8	Across Kenya
Multinational - Supplementary Financing for Kenya under the Ethiopia-Kenya Electricity Highway Project	Sovereign	KETRACO	21	Mariakani, Nanyuki & Rumuruti
Multinational - Scaling-up the Clean Cooking Industry in Africa	Sovereign	AfDB	0.8	Across Kenya. Also, in Ghana and Cameroon

It is important to note that, as of 2022, the Kopere Solar Power Project stalled due to the inability of the project developer to secure a letter of support/sovereign guarantee from the Government of Kenya.<sup>8</sup>

## Specific projects

The **Last Mile Connectivity Project II** intends to electrify low-income groups, people living in informal settlements and isolated communities as well as communities without electricity.

For the first phase of 105MW at the **Menengai Geothermal Project**, one of the independent power producers (IPPs) – Sosian Menengai Geothermal Power Limited – commenced construction of its power plant in 2021. To date construction is complete and testing and commissioning is ongoing for the 35MW plant. A 50km road network was developed through the project and there are water supply systems extended to cover households in a 30km stretch. There is also a camp site area which provides employment to households in the area.

The **Kenya Transmission Network Improvement Project** is being implemented in rural and semi-urban parts of Kenya including Rumuruti, Kabarnet, Narok, Kilifi and Bamburi. The project primarily electrified the most vulnerable households, in particular, small-scale producers, herders, agro-pastoralists, and artisanal fishermen. The project seeks to build and enhance the transmission infrastructure.

The objective of the **Development of a Utility Run Super-ESCO project** is to support the development of Kenya's energy efficiency market through enhancing energy efficiency in public buildings, development of a private energy service company (ESCO) and mobilisation of funds for energy efficiency development in the country.

The objective of the **Kenya Public-Private Partnerships in Transmission Lines project** is to give the necessary support to the Government of Kenya towards the bankability of transaction(s) in its quest to bring in private participation to transmission lines. It aims to develop guidelines for the review of private initiative investment proposals.

The objective of the **Kenya-Tanzania Power Interconnection project** is to improve the supply, reliability, and affordability of electricity in the Eastern Africa region through cross-border exchanges of cheap and cleaner surplus power from neighbouring countries. The line is expected to benefit countries in North, East and Southern Africa through interconnections between the Eastern Africa Power Pool (EAPP) and Southern African Power Pool hence facilitating power trade in the two sub-regions.

KETRACO is implementing the **multinational project, Supplementary Financing for Kenya under the Ethiopia-Kenya Electricity Highway Project**, together with Ethiopia. The project will integrate power systems of the East Africa Power Pool, improving connectivity between the two countries.

The AfDB implemented the **multinational project, Scaling-up the Clean Cooking Industry in Africa**. Its purpose was to build an enabling environment in three countries – Kenya, Ghana and Cameroon – in the liquefied petroleum gas sector through engaging private sector, local small and medium-sized enterprises, women entrepreneurs and government officials and was funded by the Fund for African Private Sector Assistance.

## General project impacts

This section highlights the actual and anticipated social impacts of the combined energy projects based on appraisal and progress reports available from the AfDB data portal. However, these impacts should be subjected to further verification through independent evaluations by authoritative institutions. This is because from the study whose findings were used to develop this brief, a comparison of actual versus documented impacts demonstrated a mismatch.

Documented socioeconomic impacts include:

- Contribution to Eastern Africa's socioeconomic transformation by promoting the power trade at the regional level. The project will help to improve the supply of electricity in Tanzania in the short to medium term with imports from Ethiopia, benefitting communities, businesses, and industries in both countries.
- Contribution to improved power supply in Tanzania and Ethiopia and the East African region and reduced operation costs of energy production.
- Replacement of the high cost of thermal energy production with cheaper hydropower, and reducing greenhouse gas emissions.
- Increased access to electricity for the low-income populations of Kenya where the power penetration rate is low by optimising 45,000 distribution transformers located in the 47 counties.
- Increased standard of living among targeted households, particularly in terms of education, health, and access to information.
- Supported socioeconomic development in Kenya by increasing installed energy capacity, diversifying the country's energy mix and fostering private sector development.
- Reduced cost of electricity supply and improving the supply of electricity in Kenya and other EAPP countries in the long run.
- Enhanced energy access, infrastructure development and private sector participation in the renewable energy sector while contributing to green growth and job creation.
- Bankability of transaction(s) in the quest to bring private participation to transmission lines.
- Reduced energy use in the public sector which represents a major cost to the government and competes with other economic and social development programmes for the government's limited resources.

## Case study of Menengai Geothermal Power Project in Kenya

Geothermal power generation, with an estimated total potential of 10,000MW, is the Government of Kenya's preferred choice for power generation because it is a baseload power source,<sup>9</sup> indigenous and least cost. Development of the Menengai Geothermal Project with an estimated potential of 1,600MW was started in 2009. The project has the long-term goal of developing 465MW over five phases. Phase I targets the development of 105MW of power plant capacity and was supported through financial contributions from AfDB and the Climate Investment Funds.

## Kenya's Menengai Geothermal Project

The Menengai Geothermal Project supplies electricity to Kenya's main grid. It is in the Menengai crater forest reserve in Nakuru County. This project was partly financed by the AfDB through a sovereign loan granted in 2011.

### Operation

The Geothermal Development Company (GDC) is responsible for exploration and development of the steam fields while independent power producers (IPPs) generate and sell produced electricity to the state utility – Kenya Power and Lighting Company.

### Public-private partnership

Menengai Phase I is being implemented using a public-private partnership approach known as the GDC model. GDC supplies steam through project implementation and steam supply agreements to power plants operated by IPPs. This reduces government liability as once steam is sold, it is up to the IPPs to produce and sell power. However, the cost of power sold to governments by IPPs has in recent years been put to question.

GDC awarded three contracts with a capacity of 35MW each to IPPs to finance, procure, construct and operate three power plants, on a **Build-Own-Operate** basis. This is a project delivery model often used in public-private partnerships for the IPP to develop and operate a project with no fixed end point or for a specified period. The IPPs are Quantum Power East Africa (QPEA) GT Menengai Limited, Sosian Menengai Geothermal

Power Limited and Orpower Twenty-Two Limited, each in various stages.

### Power purchase agreement

The contract for the duration of the PPA between KPLC and the three IPPs is 25 years which bears considerations of breaking even and turning a profit. However, such agreements are not in the public domain thus the details are unknown. [The Kenyan Presidential Taskforce report on Power Purchase Agreements](#) of 2019 further indicated that PPA agreements are opaque, and documents are not accessible. Additionally, it indicated that they are too costly.

### Progress

Sosian Menengai Geothermal commenced construction of its power plant in 2021. This is now complete, while testing and commissioning is ongoing for the 35MW plant.

QPEA GT Menengai Limited was granted non-sovereign financing by AfDB in 2018 to build the power plant and is expected to begin construction in 2024. Putting a complete project financing package together including guarantees led to delays in the project financial close and implementation. This could have been because of delays on the part of the government to release a support letter as is required by the AfDB.

### De-risking

The GDC model is designed to remove the barrier to private sector entry present when the extent of the energy resource is unknown – by absorbing the risks associated with exploration and field development.

## Kenya's Menengai Geothermal Project (continued)

The Kenyan government put in place a security package in the form of a partial risk guarantee to address the Menengai Project IPP concerns for sovereign guarantees for power offtake by KPLC (power offtake refers to feeding produced electricity into the grid). AfDB financing was therefore needed to de-risk the project and attract private sector participation necessary to realise the project without putting onerous demands on the government.

Low-cost concessional financing provided by multilateral development banks and development finance institutions including AfDB is a critical ingredient in the financing package for IPPs as it guarantees a minimum level of debt service required by lenders since the government offers a low tariff under its feed-in-tariff policy. Since renewable energy is a climate mitigation measure, the AfDB should endeavour to absorb all risks related to such projects, instead of having governments take it.

### Policy framework

The Energy and Petroleum Regulatory Authority capped the tariff for the three IPPs at \$0.085 per kWh (exclusive of value added tax) for the 105MW of power in line with Kenya's feed-in-tariff policy (2012). This ensures low cost of electricity.

Kenya's Energy Act provides several policy windows like the feed-in-tariff and net metering. It also created an agency that manages renewable energy projects – the Rural Electrification and Renewable Energy Corporation.

The government also has an Energy Efficiency Strategy, a Public Private Partnership Policy and Benefits Sharing Act that guide such investments. The Environmental Management and Coordination Act provides for public participation.

### Safeguards

The IPPs in Menengai lead in implementing environmental and social impact management plans within their power plant sites while the GDC coordinates collaboration between IPPs, stakeholders and communities.

The project is assessed as falling within risk category one, which implies that damaging events of the mapped social and environmental risks are highly likely to occur.

Communities have also documented issues in the Menengai area like increased early marriages and HIV infections.

### Case in Kenya's Environment Tribunal

A [suit filed by the Menengai West Stakeholders Forum](#) in Kenya's National Environmental Tribunal in 2022 challenged an Environmental Impact Licence issued by the National Management Authority to Sosian Menengai Geothermal, one of the three IPPs, seeking to have a fresh review and licence issued.

The AfDB's Environmental and Social Safeguards are designed to help borrowers manage the risks and impacts of their projects and improve their environmental and social performance. The Menengai project did not comply with two operational safeguards on Vulnerable Groups and Cultural Heritage as initial project assessments and approvals were based on only **five of the operational safeguards which existed at the time**. The bank has since **updated its operational safeguards**, which are yet to be fully operational.

## Observations from interviews with the host community

The observations narrated in this section emanated from a site visit conducted from 13 to 15 December 2023.

- The community in the Menengai area has a good understanding of the renewable energy project being undertaken by the GDC since 2018. They described the activities happening in the GDC protected area to be the drilling of thermal wells that produces steam which is sold to IPPs for conversion to electricity.
- The community was involved in the decision-making process of the project through **public participation**. However, public participation in this case was done with the principal aim of informing the community on the benefits of the power project. It did not meet the threshold in the Environment Management and Coordination Act which requires that the community be involved in the development of policies, plans and processes for management of the environment.
- The community reported **negative environmental impacts of the Menengai project** to include poor crop yields which has led to food insecurity in the area; corrosion of iron roofs on houses in the community; a pungent smell particularly when drilling happens on windy days; noises and occasional vibrations; erosion and destruction of road networks particularly during transportation of heavy equipment. The aforementioned begs the questions: Was the firm hired as the lead environmental impact assessment (EIA) expert qualified to undertake the EIA process at the time? Does the exploratory drilling conducted by Sosian Menengai Geothermal fall within the bounds of a social environmental assessment that ought to have been completed? Was there adequate public participation and consultation with impacted communities as required in the Environmental Management and Coordination Act? Did the EIA report sufficiently assess the negative impacts arising from the proposed project? Were the mitigation measures adequate and sufficient to lessen the negative impacts identified in the EIA report?
- In terms of energy poverty, access and equity, households in the community in the Menengai area are connected to grid electricity from Kenya Power not directly from the power project as was promised during public participation at the beginning of the project. IPPs need to be held accountable. However, Kenya's GDC which brings all IPPs together should have included a clause in the public-private partnerships contract on accountability. The contract, however, is not in the public domain.
- The socioeconomic benefits the communities in Menengai area have reported gaining from the project include water supply to community water point; minimal employment for local people; expansion of shopping centre (eg, Wanyororo) and increase in earnings especially in rental income.
- In terms of compliance to integrated safeguards systems the project is in risk category one which implies that damaging events of the mapped social and environmental risks are highly likely to occur. For example, a study which formed the basis of this brief noted that there was

an increase in early marriages, pregnancies, and HIV infection in the Menengai area, as well as the negative environmental impacts reported above.<sup>10</sup>

## Renewable energy policy enablers

### Key national energy policies in Kenya

Every five years, the AfDB develops a country strategy paper which indicates the thematic areas that the bank will prioritise its country investments in. The paper is based on the national development priorities of each country as contained in country national development plans and related documents, and these generally shift depending on the regime. Between 2015 and 2023, the bank had two country strategy papers for Kenya: 2014–2018 and 2019–2023. Under its industrialisation pillar, the [Country Strategy Paper for 2019–2023](#) relied on Kenya's Big Four model, and had focus on renewable energy indicating that 48% of investments during that period would focus on increasing the renewable energy mix (by increasing the share from 66.6% to 83.3%) and enhancing electricity access. The Menengai Geothermal Project was one of the projects envisioned by this strategy. The previous [Country Strategy Paper for 2014–2018](#) had a pillar on enhancing physical infrastructure to unleash inclusive growth and focused on the development of two projects – a thermal and wind power plant. These strategies are important enablers for development, and the AfDB usually has a window for providing input that can consider shifting of certain priorities.

Kenya's updated Nationally Determined Contribution (2020–2030) also seeks to enhance climate proofing of energy infrastructure along the renewable energy supply chain. A recently launched updated National Climate Change Action Plan, which is currently not available on the website of the relevant ministry, will provide more concrete actions on this. This is also a policy enabler anchored on climate finance which is critical to achieving climate goals on energy.

In addition to this, [Kenya's Energy Act 2019](#)<sup>11</sup> provides specific policy enablers for such investments, and also pulls together all projects related to renewable energy.

The Energy Act is designed to bring together laws relating to energy; support national and sub national government functions working on energy; set up entities to develop and regulate the energy sector; promote renewable energy use, universal energy access and energy efficiency; regulate the fossil fuel sector; and transfer rights over renewable energy resources to the national government to manage, so as to benefit all Kenyans.

As well as aligning Kenya's energy regulatory framework to the global energy landscape, the act aims to increase competition; improve the investment environment for grid, off-grid, and micro-grid projects; and create a platform for achieving the government's development objectives.

### Opportunities for national engagement

Civil society organisations (CSOs) in Kenya have continued to support and work in partnership with the Ministry of Energy to provide data, advice on policy formulation and demonstrated solutions to secure last mile energy solutions including overcoming barriers for investment and on inclusive energy service planning and delivery. Key entry points for CSOs influencing at both national and county level include:

- the development of the Energy Policy and Integrated Energy Plan at county and national levels

- engagement with the Ministry of Energy and national energy entities especially the Rural Electrification and Renewable Energy Corporation
- participation in the establishment of, and engagement with, the Renewable Energy Resources Advisory Committee
- support for capacity building of county and national technical staff on planning and implementation as well as policymakers within the county government to develop and enact policies and regulations that will accelerate access to modern energy services.

## Regional energy policies

Regional economic communities like ECOWAS, EAC and SADC have advanced policies for regional economic integration anchored in the Abuja Treaty. While the main aim is to create a common market, the communities have developed policies on areas like energy and climate change slated for advancing renewable energy investments in Africa. In some instances, these policies need to be updated to be aligned with the Paris Climate Agreement which prioritises greenhouse gas emission reductions through investment in renewable energy, among other measures. In this section we delve into some of the policies under implementation in various African regional economic communities that are aligned to or have given direction to the AfDB investment policies.

### East African Community (EAC) energy policy

The AfDB Group's [East Africa Regional Integration Strategy Paper for 2023–2027](#) indicates that East Africa has 42.5% electricity access and that there is inadequate energy infrastructure which limits region integration. It therefore talks of the need to enhance energy infrastructure to enhance regional value chain development and trade facilitation and indicates that this will be the focus of the bank between 2023 and 2027. Specifically, the strategy indicates that the bank will focus on providing solar, hydro and geothermal energy under a focus area called 'power'.

The [EAC](#) comprises eight partner states in the Eastern Africa region. Unlike other African regional organisations like ECOWAS and SADC that have more specific protocols aimed at promoting and protecting energy investments in their regions, the EAC does not have a specific energy protocol or policy. Under its [new and renewable energy initiatives](#), the EAC indicates that it intends to develop a renewable energy master plan and to promote the development of new and renewable energy sources.

Countries in the EAC are endowed with renewable energy resources such as hydro, solar, wind, biomass, geothermal, coal and hydrocarbons. However, all the countries are still experiencing a major challenge with energy access. Biomass still dominates the energy sector across the region while electricity access is generally very low (ranging from 1% in South Sudan to 75% in Kenya) with installed capacities falling way below the demand. The energy sector of the EAC features energy security challenges in the biomass, electricity and oil and gas sub-sectors. Limited energy production capacity continues to be a constraint to regional growth; energy being an enabler of growth and transformation. Continued economic and social progress in the EAC will require growing energy capacity and access to affordable energy in an environment of improved energy security.

The EAC has however developed an [energy security policy framework](#)<sup>12</sup> to provide policy guidance towards better understanding, measurement, monitoring, evaluation and management



of energy security risks and challenges in the energy sector of the region. The framework seeks to support:

- Regional cooperation in the power sector on issues of regional interest, development of interconnections, development of a power market, and exchange of technical and strategic information. The East Africa Power Master Plan developed jointly with the East African Power Pool (EAPP) aims to achieve least cost development of the power sector through economies of scale associated with electricity interconnections and trade within EAC countries. The EAC has developed a regional least cost power development plan for generation and transmission projects and a regional grid and interconnection code to govern the design and operation of electricity interconnections in the region.
- Regional cooperation in renewable energy. Developing renewable resources is essential to curbing the energy poverty challenge in the region. Centralised and distributed renewable energy resources can facilitate energy access, energy security and climate change mitigation which can be achieved by promoting an enabling environment for renewable energy and energy efficiency investments and industries in the region.
- Fossil fuels and energy transitions. The EAC region is endowed with resources such as coal, oil and natural gas and has emerged as a region of interest especially due to the discovery of huge reserves of oil in Uganda and natural gas in Tanzania. The region is looking to gain traction as an exporter. Rwanda is using the Lake Kivu methane reserves to generate power. While the region has vast hydrocarbon resources, the EAC is still a major importer of finished petroleum products with projected demand growing at between 4.6 and 7.5%.<sup>13</sup> An important development in the fossil fuels sector is the launch of a refineries development strategy.

To guarantee universal access energy in EAC, some major challenges need to be addressed:

- Limited access to electricity and low electrification levels (from a low of 1% in Sudan to a high of 75% in Kenya). This creates a barrier to attracting investments and therefore economic growth as universal access to clean and affordable energy is a prerequisite for all economic sectors.
- High cost of electricity for the consumer – leading to energy poverty – owing to the high costs of generating electricity and inefficient transmission and distribution systems.
- Heavy reliance on unsustainable biomass for cooking by most people outside urban areas with no access to electricity, contributing to environmental degradation and the climate crisis.
- Identification of alternatives to fossil fuels that can be deployed rapidly to bridge energy access gaps and support growth of industry.

### **Economic Community of West Africa (ECOWAS) energy policy**

The **ECOWAS** bloc comprises 15 member states in West and Central Africa.

The AfDB's **West Africa Regional Integration Strategy** (2020–2025) highlights that energy is one of the areas that require the most attention and indicates that the bank will prioritise the development of resilient energy supply and connectivity infrastructure in addition to reforms like harmonisation of energy policy in the region. It indicates that the bank will collaborate with the ECOWAS Regional Centre for Renewable Energy (ECREEE) in undertaking this. The strategy, however, indirectly calls for the improvement of Nigeria's oil supply chain and mentions that 'there is potential for expanding the regionally shared West African Gas Pipeline for the development of the gas market value chain'. The strategy does not indicate energy transition plans for the region.

The strategy also indicates that the bank will continue to support **ECOWAS Master Plan for Energy Generation and Transmission (2019–2033)**. One of the plan's objectives is 'optimal integration of the variable renewable energy resources'. The plan states that 31.1% of planned projects involve thermal energy (including gas) while 68.8% are renewable energy projects. It is unclear who is funding these projects but will be important to understand which projects the bank intends to finance. The Master Plan also indicates that due to high investment costs for such projects as well as the budgetary constraints that ECOWAS countries face, the states are opting to make investments through public–private partnerships especially in solar and wind. These are also important to watch.

The ECOWAS region has abundant renewable and hydrocarbon resources. Its **renewable energy policy**,<sup>14</sup> developed in 2018, aims to contribute to achieving universal access to sustainable energy services in the region by 2030. Some key targets of the policy are to:

- Increase the share of renewable energy in the energy mix to 10% by 2020 and 19% by 2030, and when large hydro is included, to 35% by 2020 and 48% by 2030.
- Increase the proportion of the rural population able to access decentralised renewable energy services to 22% by 2020 and 25% by 2030.
- Deliver universal access to improved cookstoves by 2020.
- Increase access to modern fuel alternatives including liquefied petroleum gas for cooking to 36% of the population by 2020 and 41% by 2030.

To deliver the objectives of the policy, ECOWAS states that it is committed to (among other actions): securing a coherent, efficient, and flexible, legal institutional and regulatory framework to develop consistency between the regional and national renewable energy policies; and promoting advocacy, awareness and knowledge management through the ECREEE Regional Observatory for Renewable Energy and Energy Efficiency.

### **Southern Africa Development Community (SADC) energy policy**

SADC is a regional economic community made up of 16 member states. The AfDB's **Southern Africa Regional Integration Strategy (2020–2026)** indicates that in at least four of these states, there is a commitment to increasing renewable energy through Nationally Determined Contributions. It states energy deficits and overreliance in one country – South Africa – as a key risk to energy access in the region. It further states that overreliance on coal is a critical issue driving the energy crisis in addition to lack of funding for new efficient and integrated infrastructure.

The strategy positions the development of Mozambique's offshore liquefied natural gas as providing an alternative energy solution. It also indicates that the bank will support the development of a regional master plan on gas use for energy and industrial purposes as part of this strategy. This is concerning because liquefied natural gas is one of the most potent greenhouse gases, and it is unclear how offshore gas will meet the country's industrial needs. The strategy states that the SADC region requires reforms to 'expand electricity access for households and small businesses by crowding in IPPs', among others. It is important to scrutinise the role of IPPs in delivering this. The bank indicates that it will work with the Southern African Power Pool, the SADC Centre for Renewable Energy and Energy Efficiency (SACREEE) and others in fulfilling this aspect of energy reforms and infrastructure development.

SADC's **Protocol on Energy**<sup>15</sup> indicates that SADC will develop an expanded coal use strategy and the bank need not align investment in this area. The protocol should instead indicate plans for the energy transition and not expansion of such infrastructure.

The protocol, released in 1996, is designed to guide SADC's member states to take a coordinated approach to energy strategy development, so respective national energy policies work together towards equitable development of energy in the region. The SADC Energy Commission is responsible for implementing the protocol.

The protocol aims to harmonise energy policies and programmes and ensure that energy services are provided in the most efficient and cost-effective manner; facilitate cooperation across sub-sectors to ensure security and reliability of energy supply; promote joint development of HR and capacity building in the sector; encourage joint working on low-cost energy technologies; and standardise appropriate energy development and application.

The protocol provides detailed guidelines for cooperation. Specifically:

1. For SADC's electricity sub-sector, aim for a regionally integrated, productively used and optimally managed power system by such means as promoting electricity trading and power pooling; and promoting integrated resource planning to benefit from economies of scale, optimised investments, and equitable sharing of benefits.
2. For petroleum and natural gas, promote cooperation in the development of all aspects of SADC's resources.
3. For coal (of which the region has large reserves), to develop a strategy for expanded coal use considering issues such as cost, efficient coal stove development, coal briquetting, coal gasification and the use of coal bed methane to replace coal with wood fuel. For wood fuel (another key source), SADC aims to develop, enhance, and facilitate cooperation in its sustainable provision and use by promoting community participation in developing and implementing policies.
4. The potential for production and use of renewable energy sources is huge. To promote this in an economically and socially acceptable manner, SADC aims to develop appropriate financing mechanisms; create suitable tax regimes; create an enabling environment for private sector involvement; provide technical support to governments and NGOs; and include cost-effective renewable energy source applications in public investment programmes.
5. SADC aims to encourage the development of national energy efficiency and conservation plans; target a reduction in commercial energy intensity; involve energy providers in energy efficiency schemes; and use pricing as a tool for energy efficiency and conservation.

### **North Africa**

In the AfDB **North Africa Regional Integration Strategy Paper** (RISP-NA) 2020–2026, the bank highlights that the energy sector is the largest greenhouse gas contributor in the region thus regional governments are now promoting renewable energy as 'fossil resources account for between 95% and almost all primary energy supply'. The region's Maghreb Electricity Committee or COMELEC indicates that the region intends to develop a common energy market to address growing (solar) energy demand identifying further that renewable energy is an area of cooperation. Like the other regions, the strategy paper cites lack of infrastructure as a hinderance to regional integration and cites infrastructure development and connectivity as key to their progress. From the strategy, the bank's regional integration projects fund both solar and

thermal projects. The bank indicated that it would undertake research in the region on the study of renewable energy value chains and will support harmonisation of energy policies. This will be key to greater uptake of renewable energy.

North Africa's energy system has changed significantly over recent years due to factors such as the availability of new and diversified energy sources, evolving international energy markets, the climate crisis, and conflicts within the region.

While the region will clearly continue to both export and consume oil and gas for the foreseeable future, the global move towards new sources of energy will impact North Africa too. Export revenues for countries that export oil are expected to be impacted as more and more countries take up alternative sources of energy.

During the review period of 2015 to 2023, AfDB funded just one natural gas transmission and distribution infrastructure network development project in the region.

A review of the country and regional energy policies confirms an alignment with the need to promote renewable energy as a means of enhancing universal access to modern energy services, reducing costs, encouraging investments, and mitigating climate impacts.

## Policy recommendations

From the analysis of sovereign and non-sovereign financial flows to renewable energy, it is encouraging to see that since 2015, the bank has prioritised funding for renewable energy. The study has established important existing and emerging issues that need to be addressed by both the AfDB and by governments and other policy makers and implementers.

### General recommendations

The AfDB's project portal provides useful information on all projects being undertaken by the bank. However, in undertaking an analysis of renewable energy and fossil fuel investments between 2015 and 2023, it was unclear where to retrieve all information relating to energy financing by the bank. This was because in addition to the project portal, there were also other reports and pronouncements by the bank. For instance, it is unclear how the bank's Climate Action Window which issued a call for proposals would result in investment in renewables, and how this would be tracked. Additionally, funding for technical assistance for states to undertake reforms or initiate policies related to the energy transition cannot be ascertained from the project portal. Furthermore, project progress reports are not available in the portal and documents are not up to date. For example, on the portal, documents on Kenya's Menengai Geothermal Project are for project appraisal level only and one must go to the websites of the IPPs to retrieve progress reports.

The analysis established that 56.17% of funding from the AfDB Group to African countries went to grid enhancement, which is critical for enhancing electricity access (grid connected) and for growth of industry. However, there are populations that are off grid, yet to be connected to electricity for the first time. **It would be important for the bank to commit more in future to connecting these 'last mile' communities through financing off-grid renewable energy projects** which can bridge energy access deficits for communities that need it most. In addition to this, **the bank's financing of technical assistance that results in reforms should also be clearer.** For example, in Kenya the bank funded the development of a public-private partnership unit in Kenya's Ministry of Finance (Treasury). While appreciating the need for greater legislation

and accountability when it comes to public-private partnerships, the role of the bank in establishing this unit is not in the public domain. Given that Kenya has had historical challenges with IPPs, **it is critical that both the bank and the state make operations, practices and policies of such a unit transparent.** Technical assistance can also go to areas like gender mainstreaming, which the AfDB Gender Strategy<sup>16</sup> indicates is important and highlights how the bank's energy policy can be updated and gender mainstreaming measures adopted.

**There is need for the de-risking clauses in PPAs to be transparent.** The case of the Menengai Geothermal Project in Kenya highlights key learnings that have been subjected to scrutiny in this policy paper. In September 2021, a **presidential taskforce report on Power Purchase Agreements** established that the agreement between Kenya's power utility – Kenya Power and Lighting Company (KPLC) – and an IPP subjected the utility to a significant financial burden and debt. One of the ways this debt was accrued was through de-risking measures in the contract which indicated that commercial challenges of the project would be guaranteed by the state. States should not de-risk such investments to protect large companies or investors, but to protect consumers from being taken advantage of, and should therefore subject de-risking measures to public scrutiny through public participation. In the same breadth, the presidential taskforce report indicated that its members did not receive full information on the process for onboarding the IPP from KPLC. For this reason, the report called for transparency of PPAs and IPPs who undertake some of the sovereign projects. **It is therefore important for the AfDB and governments to put transparency clauses into IPP agreements and to ensure their accountability.** On their part, **states should be mandated to subject such de-risking measures to public participation.**

## Recommendations from regional policy enablers

The AfDB's Regional Integration Strategies indicated various avenues for support to regional infrastructure integration in the four regions. It is important to analyse the financial flows within regional blocs against the plans of each country and see whether these align. It is encouraging that each region has policy enablers that are in tandem with the need for increased renewable energy investments.

Some of the areas to look out for from the Regional Integration Strategy papers is the mention of support to an offshore gas project in the Southern Africa region, the support going towards improving oil and gas infrastructure in the West Africa region and support for thermal energy projects in North Africa. There are also reforms targeted at the energy sector in the four regions and these are important to follow as increasing renewable energy investments will need greater scrutiny and intention. In addition to this, **the form that the funding will take ie, West Africa's intention to work with IPPs needs to be scrutinised** so that the region is not faced with the challenges that Kenya has been facing in its renewable energy PPAs. And **there should be greater scrutiny of PPAs in these regions.** The SADC commission should also be dissuaded from pursuing expanded coal use.

**There is also need for greater prioritisation of decentralised renewable energy by the regional economic blocs.** Most of the projects that will be financed by the bank in these regions are for 'big power' through infrastructure development. The need for regional integration is paramount, however, without addressing energy poverty for people at the margins or last mile communities equitably, development, which is a key objective for the bank, will not be achieved.

The **African Renewable Energy Initiative and the Accelerated Partnerships for Renewable Energy in Africa** are important initiatives that should be examined and monitored. While these resulted from political deliberations, it is **important to ensure that they are aligned to renewable energy priorities and best practices on the continent**. The latter, for instance, has a pillar on private investment which needs scrutiny. It is worrying when states initiate continental policy announcements that involve mobilising private sector investments. For renewable energy investments, even though most regional blocs have financing challenges, states must lead policies to ensure public finance is done right.

### Recommendations from the Kenya projects and case study

In Kenya, the only solar power project (Kopere) stalled as the company could not get a guarantee from the state. It is understandable that there are risks associated with the deployment of such new technologies, but related to transparency, it is unclear the type of risks listed by such IPPs or the reason behind the failure by the government to issue this letter. There is therefore **need for greater public understanding of risks faced by renewable energy project developers and how they would affect the pipeline of future projects**. It is unclear what led to the company stalling and how the financing has been re-channelled by the bank, and this should be made clear by the bank, and a public process initiated for the re-channelling.

Kenya's Menengai case study also highlighted accountability of IPPs as something that the bank should commit to. While recognising the rigorous safeguarding and other processes of the bank before project initiation, **there is need for a follow up on the promises laid down to communities around power projects that IPPs implement**. During initial public participation processes at the project sites, communities are promised benefits which, if not followed-up, end up as failed promises. Through follow-ups, the IPPs shall be committed to implementing actions which would enable the community to discern the benefits of the power project as envisaged in the appraisal reports. Community-based organisations often highlight such issues, but in many cases, communities are unable to hold these organisations accountable.

In the Menengai case study, the publicly run Geothermal Development Company (GDC) has not established a mandatory mechanism of response to community feedback. This is an issue of importance to the bank, to governments, and to civil society and community-based organisations which often support development of appropriate community engagement strategies which ensure that complaints and feedback from the community on the power project are addressed. **There is need to strengthen the community's ability to hold the IPPs accountable.**

Sosian Menengai Geothermal Power Limited, one of the three IPPs undertaking the Menengai Project, had not met two of the bank's operational safeguards. It is unclear whether the project has now met these safeguards. **The bank should issue a statement on how it intends to ensure that Sosian Energy complies with the safeguards**. In addition, there is an **existing case in Kenya's Environment Tribunal, and the GDC should provide a statement on this**, and on how it intends to restart the environmental compliance process which the complainants have called for. This must be picked for continuous review, and the public informed on ongoing processes as public finance has been used.

### Civil society engagement in bank processes

CSOs are advocates for people living in poverty to have access to safe, reliable, and affordable energy, and for environmentally sustainable and efficient energy systems globally. A review of

the bank's project portfolio identifies several avenues and opportunities for greater CSO involvement.

Inputting into the development of country strategy papers offers an appropriate opportunity for CSOs to influence the outcome/impacts of AfDB investments in any one country given that the selection, approval, and financing of projects is undertaken based on the country strategy papers. **The involvement of CSOs in engaging communities and stakeholders in the country strategy papers development process should be mainstreamed.** This would allow, for example, a need-based approach to prioritising renewable energy investments in countries. The bank's civil society engagement department established an action plan in 2023 which, once published, will make the bank's CSO engagement actions clearer. **During mid-term review of country strategy papers, it would also be useful for CSOs to collate input and share this information with the bank,** especially with regard to bank-funded investments.

There are several CSOs that monitor project compliance with the bank's Integrated Safeguards System, especially the environment, social and economic safeguard issues. In the case of the Menengai Geothermal Project case study, there are important issues that need to be addressed. CSOs have supported reviews of such safeguards to encompass key issues and to address complaints that have been made.

Christian Aid and other agencies should **champion awareness creation of the communities living around power projects on social and environmental risks posed by power generation and transmission projects.** Through awareness creation communities will be empowered to take-up matters on social and environmental risks and advocate for measures to be put in place by renewable energy developers to reduce or mitigate the negative impacts of the risks.

There is need to **strengthen the community's ability to hold the IPPs accountable.** Currently, GDC asks for feedback from the community, yet community members never receive any response to their complaints. Christian Aid could support the development of an appropriate community engagement strategy which would ensure that complaints and feedback from the community on the power project are addressed.

CSOs could lead and steer stakeholder consultations including review and analysis of social and economic developments and prospects of projects. Project appraisal reports indicate the positive and negative social impacts of projects. However, stakeholders often do not know about these reports despite them being in public domain. Taking the Menengai example, communities were unaware of the existence of appraisal reports, yet holding stakeholder consultations fosters information exchange between communities, CSOs and IPPs.

The AfDB has funded many projects and engaged with CSOs. The Civil Society Engagement Plan that was initiated in 2023 by the bank's Civil Society Unit is useful in framing the bank's engagement with civil society while encouraging civil society engagement in bank led CSO forums and open days. However, the bank plays a role in energy sector reforms, and between 2015 and 2023, funding to energy reforms across Africa was significant, heavily shaping country policies. As states debate issues related to reforms of global financial architecture of institutions like multilateral development banks, the continued role of holding the bank accountable is critical to ensure that its investments meet community needs and priorities and that public finance is done right. In this regard, **the AfDB should work with communities, local and county governments** to identify challenges and opportunities that input into the development of the country strategy papers and identification of key projects to address the challenges. The bank should **open engagement to all citizens. The AfDB should also cooperate with regional bodies and**

**centres of excellence** to align development, selection and prioritisation of investment policies and choices that **support a rapid shift towards sustainable renewable energy**.



## Endnotes

<sup>1</sup> The ‘High 5’ development priorities are to: light up and power Africa, feed Africa, industrialise Africa, integrate Africa, and improve quality of life for Africans.

See: [www.afdb.org/en/high5](http://www.afdb.org/en/high5)

<sup>2</sup> See definitions on p7.

<sup>3</sup> Technical assistance projects include: Preparatory Studies, developing a comprehensive capacity-building programs, and strategy development, strengthening regulatory mechanism improving sector governance, and program management to create an enabling environment while unlocking private sector investments in the targeted countries

<sup>4</sup> Incentives include To continue the original programme and facilitate the provision of **affordable debt products** to Energy Access companies intended to provide relief and recovery capital to address operational disruptions, business uncertainty and liquidity constraints. Through additional **funding, budget support** to create

conditions for inclusive and sustainable economic growth **and corporate loan (to address energy crisis** as well as mitigating the negative impacts i.e of COVID-19 pandemic.

<sup>5</sup> This 77.37% includes investment in grid enhancement, as this area was assessed as prioritising renewable energy.

<sup>6</sup> Based on analysis of AfDB projects and investment database for the period 2015–2023.

<sup>7</sup> 1 US dollar=133,329 UA based on December 2023 exchange rates. UA (units of aid) is the currency of AfDB projects.

<sup>8</sup> African Energy. Kenyan government inertia stalls Kopere solar PV’s progress. [www.africa-energy.com/news-centre/article/kenyan-government-inertia-stalls-kopere-solar-pvs-progress](http://www.africa-energy.com/news-centre/article/kenyan-government-inertia-stalls-kopere-solar-pvs-progress)

<sup>9</sup> Base load power plant provides a continuous supply of electricity throughout the year with some minimum power generation requirement.

<sup>10</sup> Focus group discussions held in the Wanyororo-Menengai area.

<sup>11</sup> Government of Kenya. Kenya Energy Act 2019. [www.epra.go.ke/download/the-energy-act-2019](http://www.epra.go.ke/download/the-energy-act-2019)

<sup>12</sup> EAC. EAC Energy Security Policy Framework. 2018. [https://archive.uneca.org/sites/default/files/images/eac\\_energy\\_report\\_fa.pdf](https://archive.uneca.org/sites/default/files/images/eac_energy_report_fa.pdf)

<sup>13</sup> Ibid.

<sup>14</sup> ECREEE. ECOWAS Renewable Energy Policy (Supplementary Act A/SA.3/07/13). 2018. [www.ecreee.org/sites/default/files/documents/ecowas\\_renewable\\_energy\\_policy.pdf](http://www.ecreee.org/sites/default/files/documents/ecowas_renewable_energy_policy.pdf)

<sup>15</sup> SADC. Protocol on Energy. 1996. [www.sadc.int/document/protocol-energy](http://www.sadc.int/document/protocol-energy)

<sup>16</sup> AfDB. The African Development Bank Group Gender Strategy 2021–2025. [www.afdb.org/en/documents/african-development-bank-group-gender-strategy-2021-2025](http://www.afdb.org/en/documents/african-development-bank-group-gender-strategy-2021-2025)