Frankfurt School
UNEP Collaborating Centre
for Climate & Sustainable Energy Finance

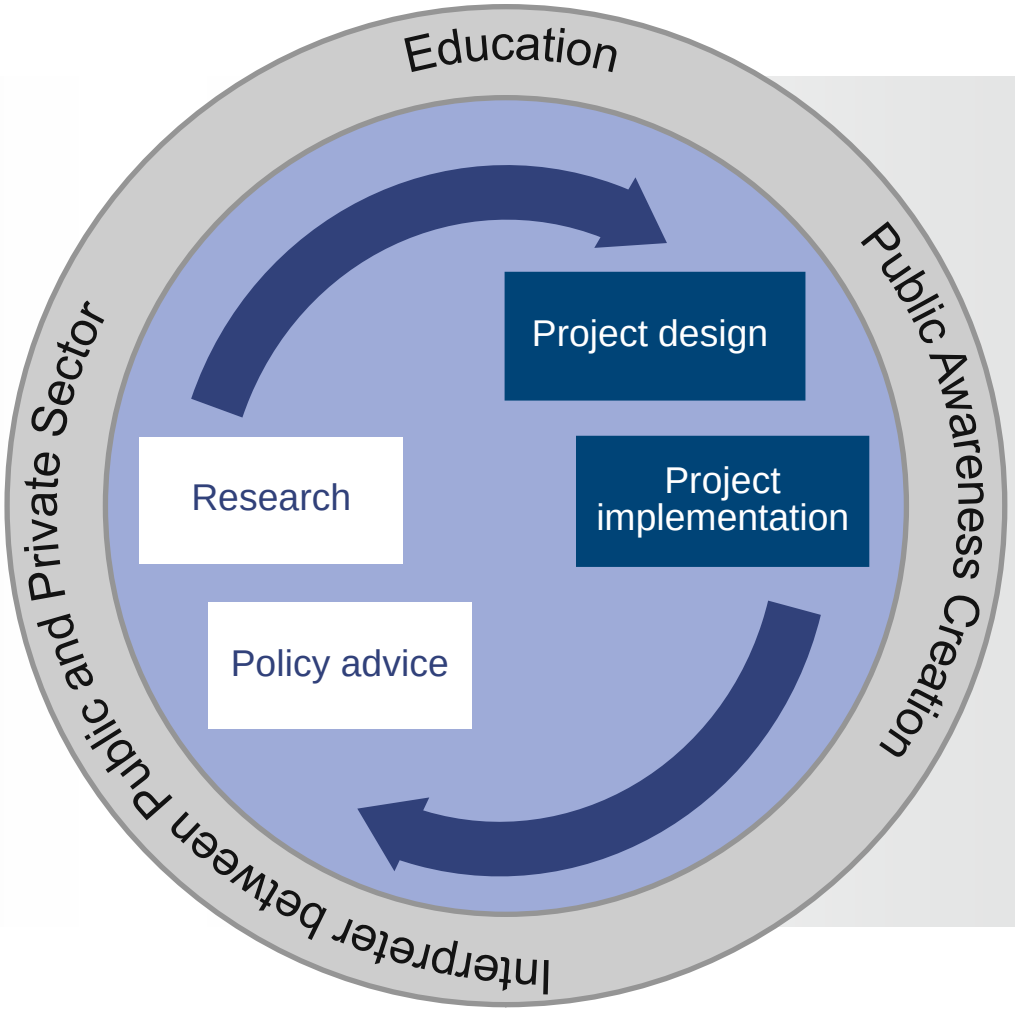
De-risk the investment in RE industry for West Africa

EREI Forum, Accra
9 Oct 2013

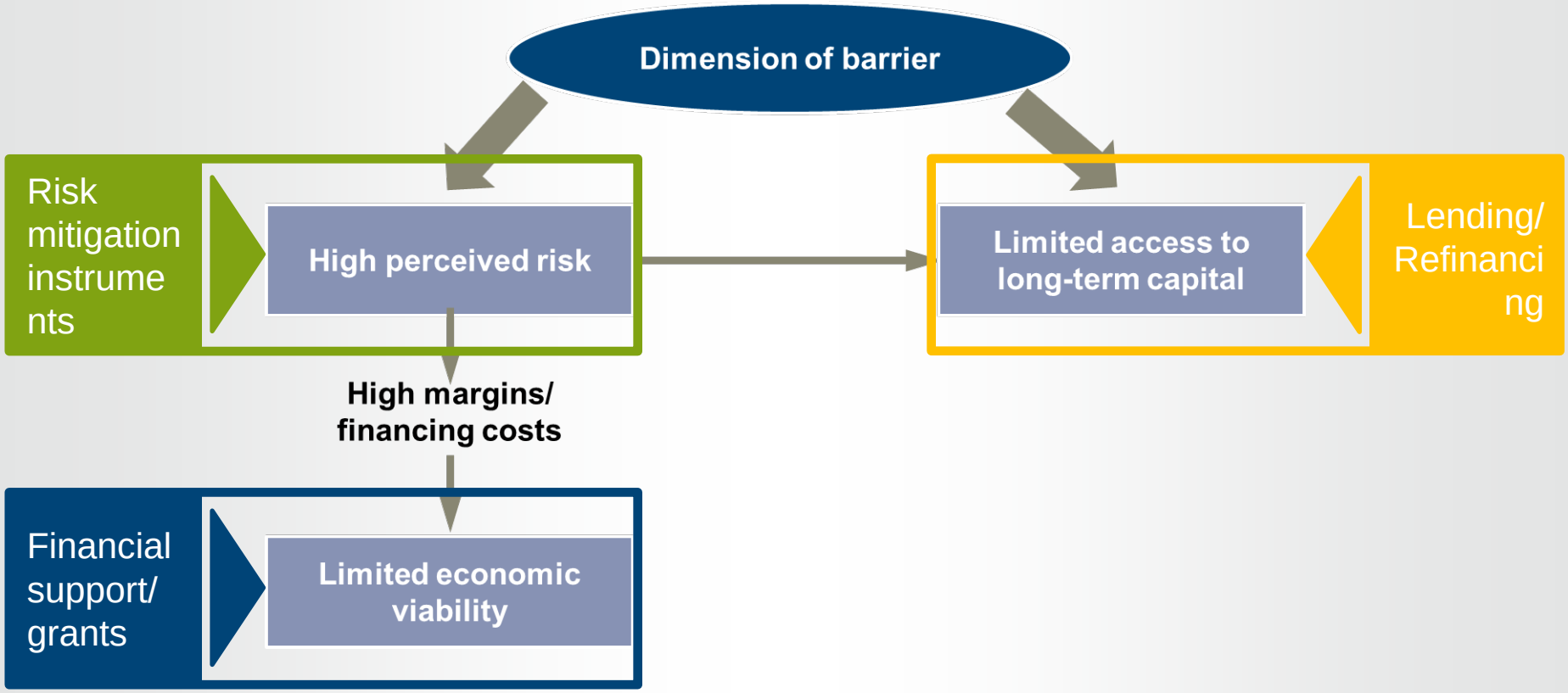
FRANKFURT SCHOOL - UNEP COLLABORATING CENTRE FOR CLIMATE & SUSTAINABLE ENERGY FINANCE

AN INTEGRATED “THINK AND DO TANK”

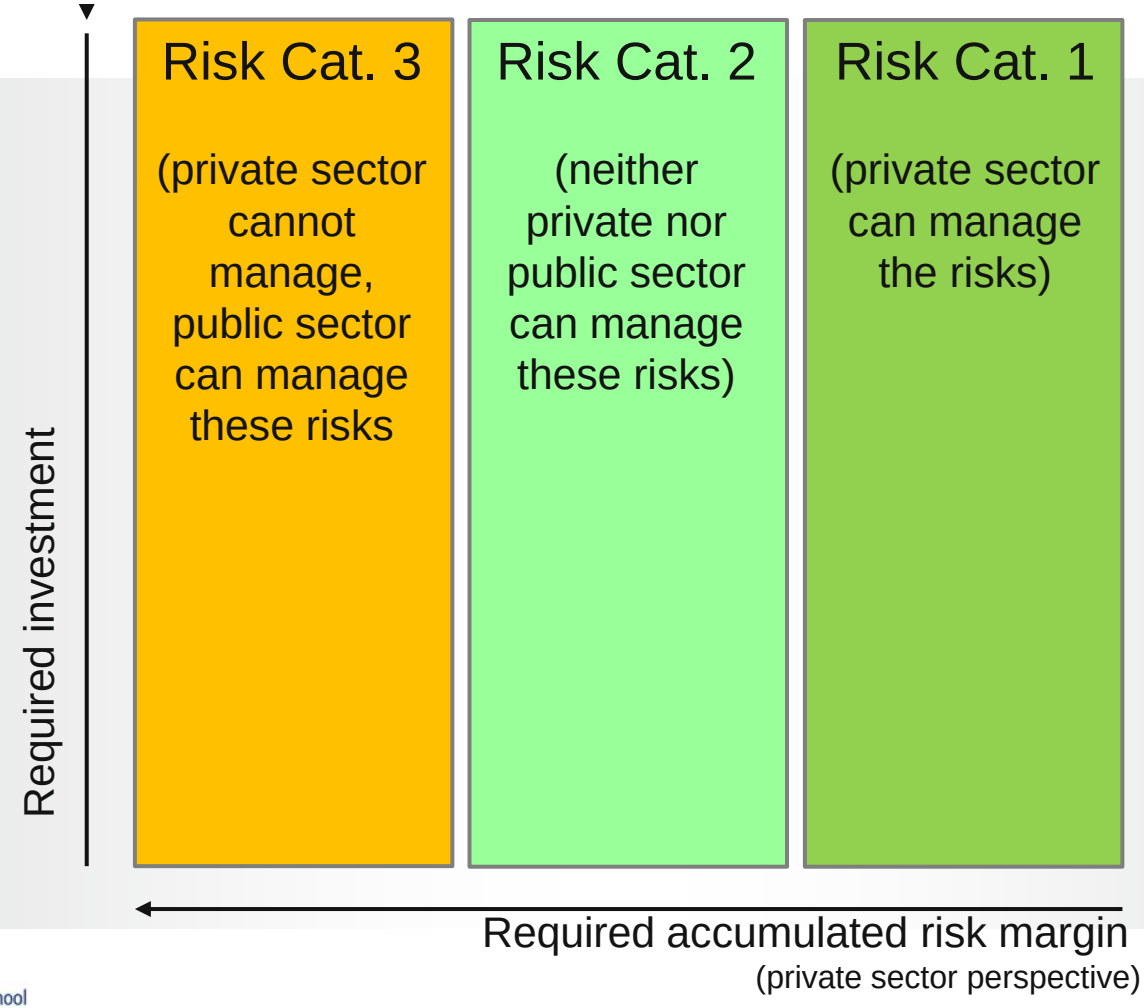
- Strategic collaboration between the UNEP and the Frankfurt School
- UNEP’s main knowledge hub for sustainable energy and climate finance
- Research with an orientation towards practical application
- Implementing findings and instruments in the field



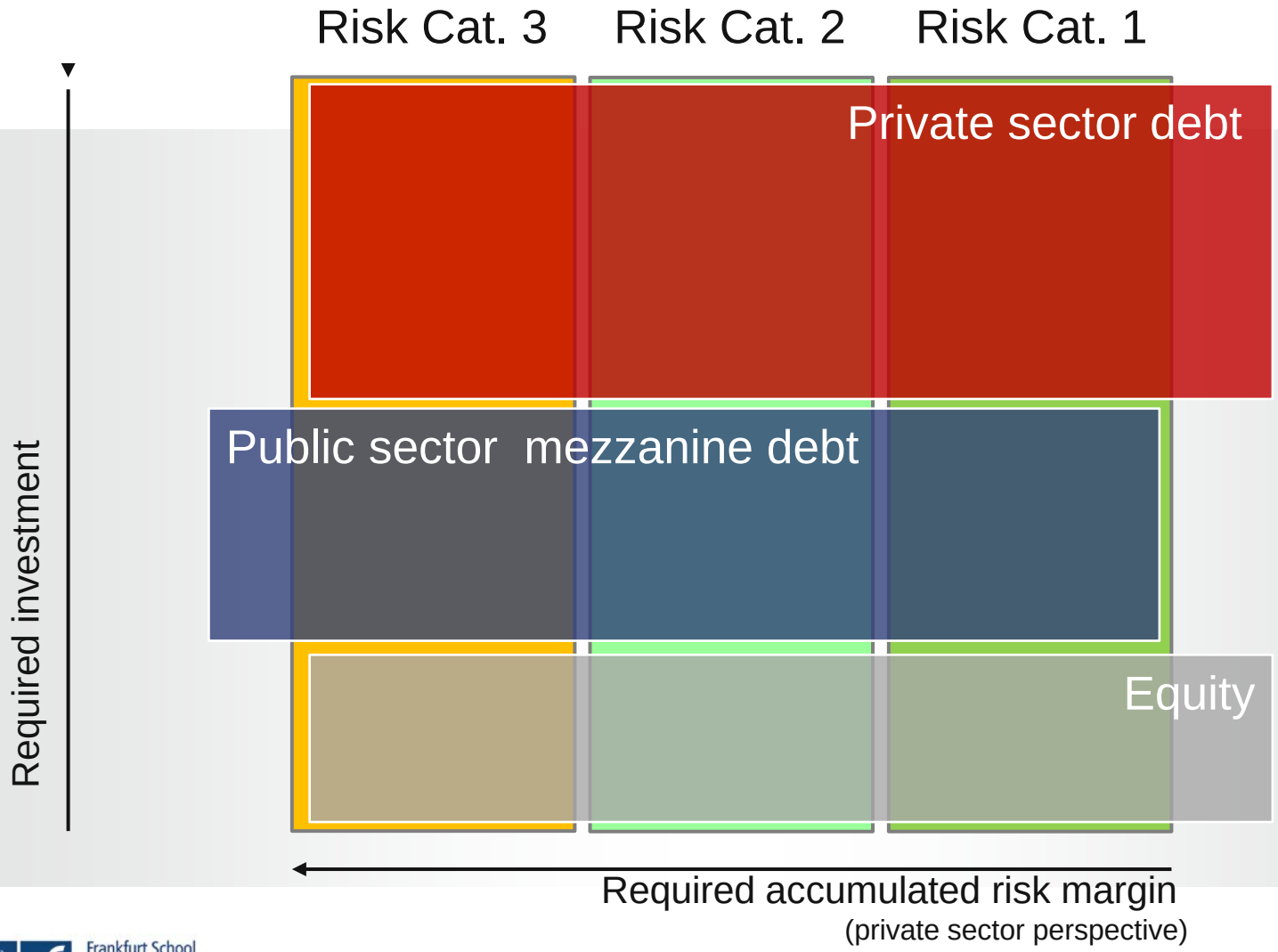
Major barriers for RE infrastructure investments



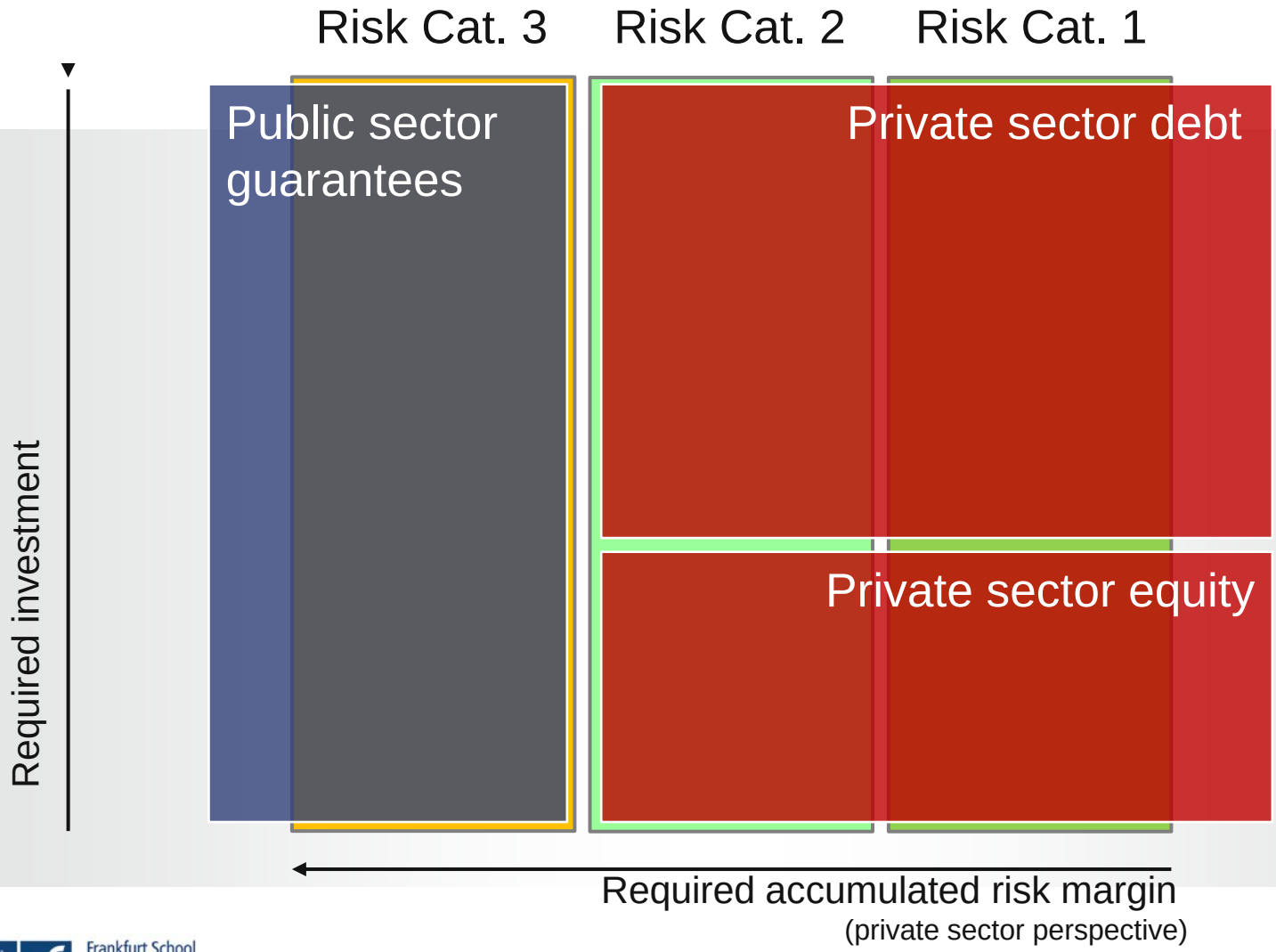
Risk categories



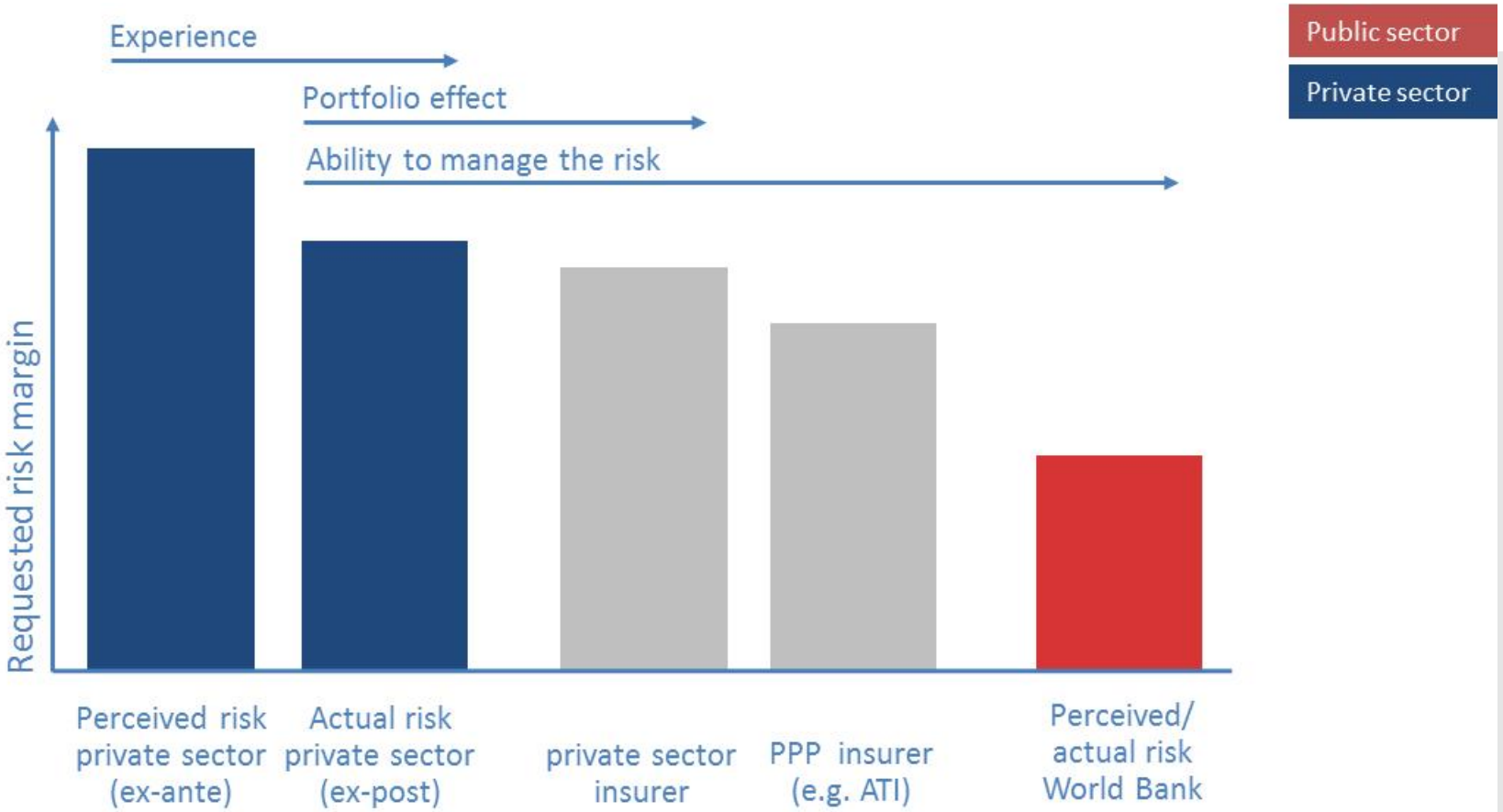
„Horizontal slicing“



„Vertical slicing“



Cost efficiency of risk mitigation instruments

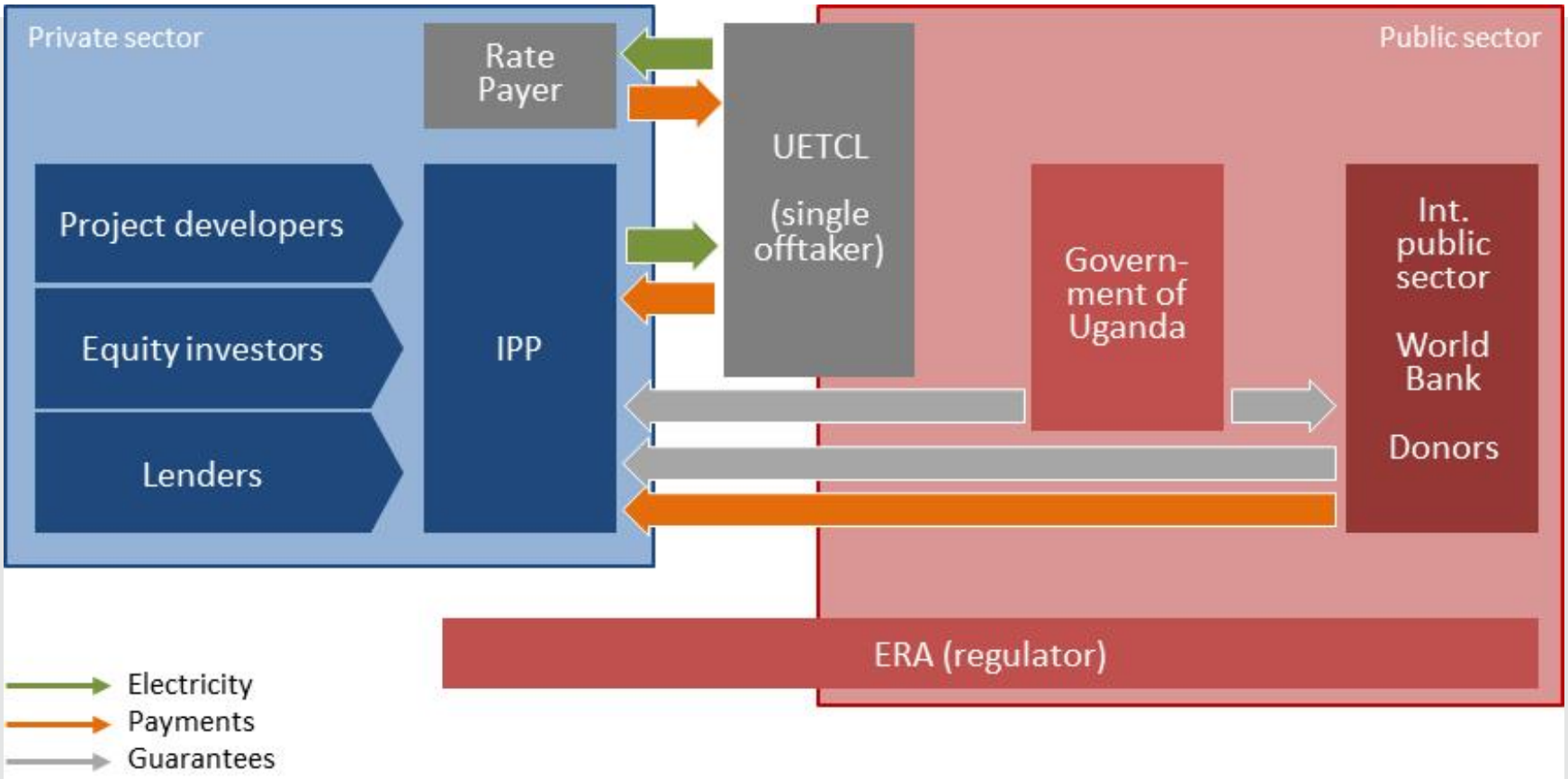


GET FiT
Pilot Uganda

- GET FiT concept introduced by Deutsche Bank in April 2010
- Implemented by KfW in Uganda as pilot country with donor support from UK, Norway and Germany
- Launched in May 2013
- Supports approx. 125 MW IPP RE generation capacity, primarily bagasse and small hydro. PV to come
- „Upgrade“ of existing FiT regulation comprising Worldbank PRG guarantees and FiT top-up over 5 years

GET FiT
Pilot Uganda

GET FiT UGANDA



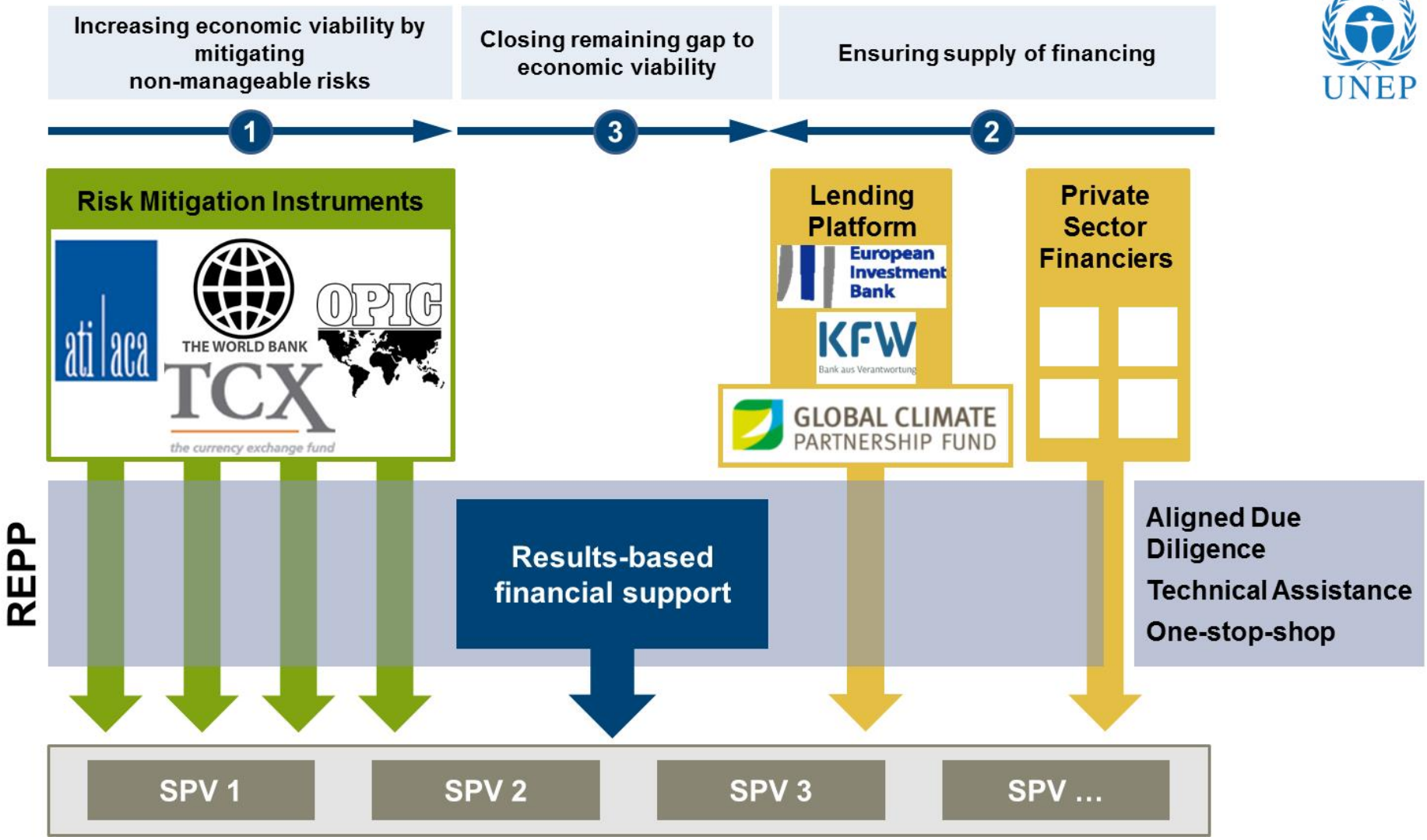
Renewable Energy Performance Platform

- Small/Medium scale projects (1-15MW) often fail to attract financing even in countries which principally have introduced a supportive regulatory environment and offer competitive tariffs.
- Smaller projects often face a range of risks which escalate the cost of finance to the point that the project becomes ’unbankable‘.
- REPP seeks to mobilise private sector development activity and investment in small/medium projects through
  - *1) improved access to existing risk mitigation instruments,*
  - 2) *long term lending* and
  - 3) *results-based financial support*

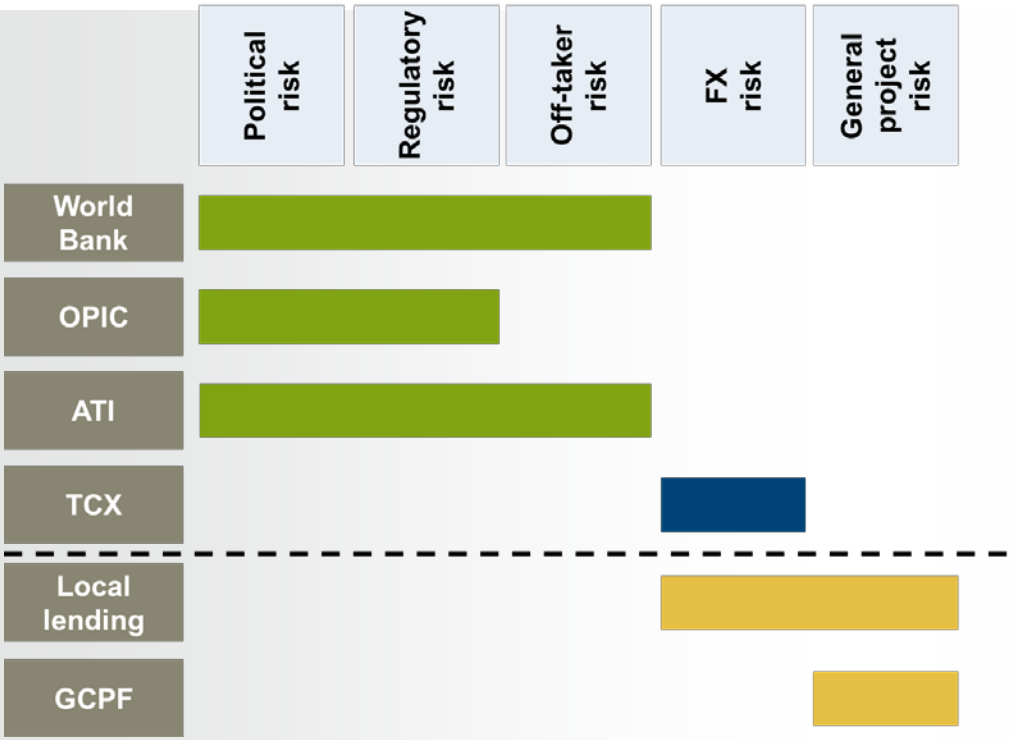
Challenges for small/medium scale RE

- Access to finance for projects is hindered by the lack of bankable projects, experienced developers and low feed-in tariffs that hardly allow for cost recovery in markets where average generation costs are high.
- High (perceived) political risks, doubts regarding the creditworthiness of the off-takers and the unsuitability of available financial products explain the reluctance among banks and other investors
- High transaction risks and consequently high risks of sunk costs combined with low ticket sizes limit appetite of commercial lenders
- High transaction costs burden access to risk mitigation instruments

REPP concept

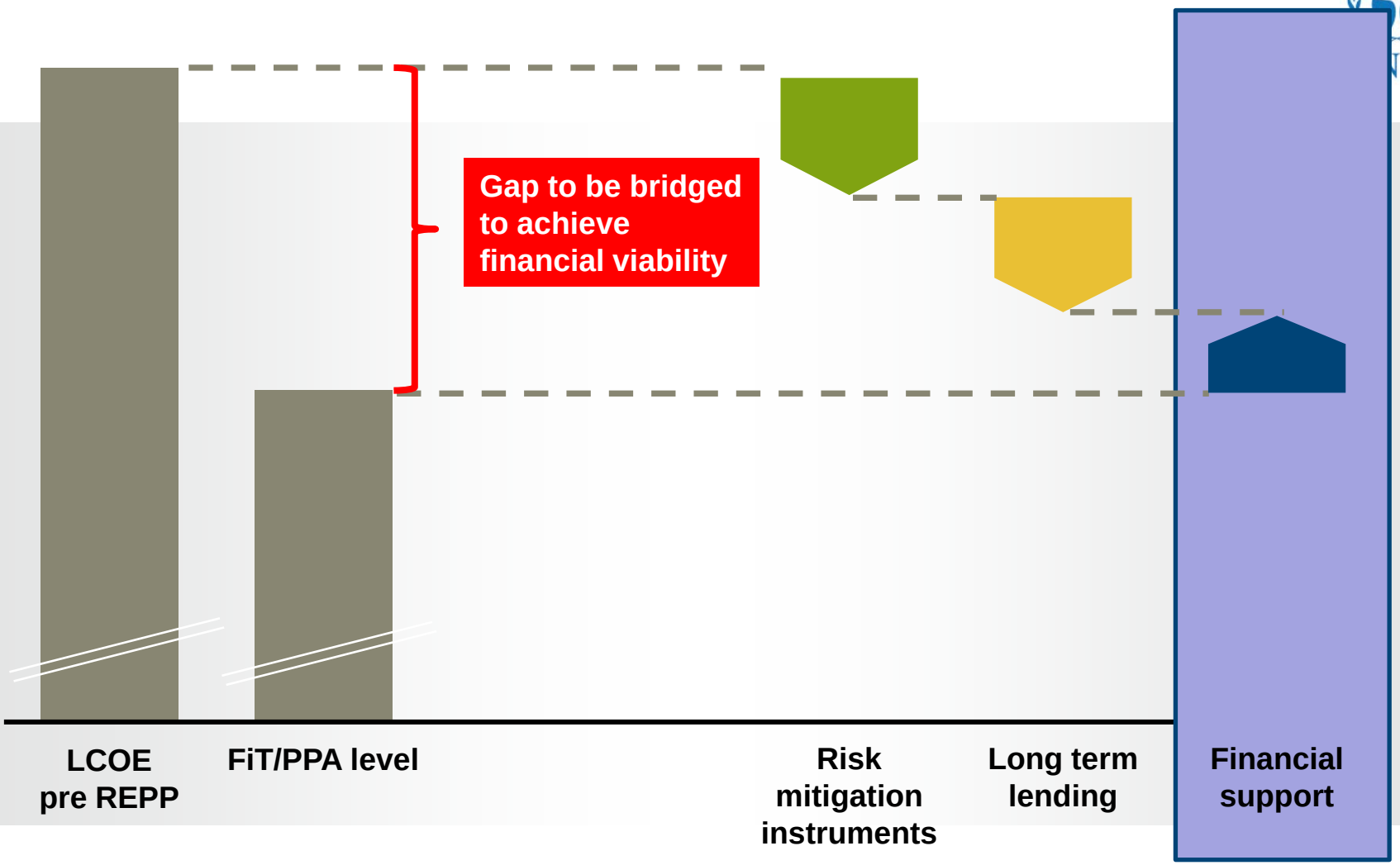


Risk mitigation instruments



- Reduce margin requirements and/or increase the availability of capital and consequently reduce levelised cost of electricity
- Decrease the cost of financing for the project in a greater property than they cost for the public sector guarantee provider
- REPP projects pay the guarantee fee and/or REPP partners bear their own cost

REPP – cost efficient use of donor money



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Expected impact of risk mitigation instruments

	Equity return expectations	Initial debt ratio*	Debt tenor	Debt risk margin
World Bank PRG (12m liquidity guarantee)	-4 - 5%	+25 - 65%	+3 - 5 years	-200 - 300 bps
ATI-ACA (12m liquidity guarantee)	-3 - 4%	+25 - 55%	+3 - 5 years	-100 - 200 bps
OPIC	-1 - 2%	+25 - 55%	+3 - 5 years	-100 - 200 bps
TCX	-2 - 3%	+0 - 40%	+/- 0	+/- 0
GCPF co investment or subordinated investment	-1 - 2%	+0 - 50%	+1 - 3 years	-100 - 200 bps

*Before REPP support, a 35% Equity @25% and a 65% quasi equity portion @ 17% return is assumed. The 65% quasi equity portion will be gradually replaced by senior debt bearing lower interest as REPP instruments are added