AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

De-Risking Sustainable Energy Projects in Africa

ECOWAS Renewable Energy Investment Week
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Typology of Risks

A plethora of risk exist which can undermine a RE project's commercial viability. Mitigating these risks is fundamental for success, in particular where financing is sought from financial institutions.

Country Risks	▪ Policy and Regulatory Risk ▪ Contract enforcement ▪ Intellectual Property Rights (IPR) protection ▪ Foreign Exchange (e.g. convertibility, exchange stability) ▪ Macro-economic stability / Sovereign Risk
Project Specific Risks	▪ Resource availability and predictability ▪ Early and late stage project development ▪ Technology ▪ Costs escalations (e.g. CAPEX and OPEX) ▪ Revenue volatility and off-taker default
Financing Risks	▪ Equity Availability ▪ Debt Availability ▪ Adequate financing terms (e.g. tenors, interest, grace, collateral)

AfDB's project risk mitigation instruments

AfDB has targeted instruments to mitigate selected risks and improve bankability of projects

Partial Credit Guarantees

- Guarantee to covered a portion of **scheduled loan repayments**
- Can support mobilization of funds for project finance, financial intermediation and policy-based finance

Partial Risk Guarantees

- Financial Guarantee that covers **debt service defaults** that result from the non-performance of a Gov't or GOE on its obligations
- Specifically it can cover:
  - (i) currency inconvertibility
  - (ii) political force majeure
  - (iii) expropriation
  - (iv) breach of contractual payment obligations
- Only covers debt service, including principal and interest
- Counter indemnity required from the Government

AfDB's Traditional Financing Instruments

AfDB's debt instruments are key to crowding-in other financiers and mitigate the risk of projects not raising enough financing on adequate terms

Senior Debt

- Up to 1/3 of Project's Total Cost
- Tenor up to 15-years
- Grace Period up to 5-years
- Competitive interest rates

Mezzanine

- Structured on a project-by-project basis
- Structured as a co-financing instrument when AfDB is a lender
- Only considered if catalytic effect is demonstrated

A-B Loans

- AfDB acts as lender-of-record/arranger by taking the "A" share and syndicates the "B" share of a loan
- AfDB originates, structures and syndicates the deal
- "B" lenders benefit from AfDB's Preferred Creditor Status

Sustainable Energy Fund for Africa

SEFA is a USD 60 million Multi-Donor Trust Fund designed to improve the risk-return profile of clean energy investments.

	I - PROJECT PREPARATION GRANTS	II - EQUITY INVESTMENTS	III - SE4All AND ENABLING ENVIRONMENT (Q4 2013)
SCOPE (Size range)	*Preparation support to medium-size* RE/EE Projects [USD 30m - 200m]	Seed/growth capital for small to medium sized RE/EE Projects [USD 10m - 80m]	Enabling environment for private investments and SE4All activities
FINANCING INSTRUMENT	Grants to project developers / sponsors	Equity and TA through a Private Equity Fund	Grants for TA and capacity building of public actors
RISKS	**Development risk**	**Development risk, Financing risk**	**Policy risk**

Still many challenges ahead!

Many barriers still exist across the value chain preventing RE deployment…

Financial Barriers

- Subsidies to fossil fuels
- Higher capital intensity
- Higher O&M costs for some technologies
- Smaller market exposure
- Financing Risks

Structural Barriers

- Poor condition of National Grids
- Need for Base Load and interconnections
- High transaction costs vis-à-vis project size
- "Business as usual" bias

Technical and Capability Barriers

- Lack of Capacity across the value chain
- Knowledge gap in relation to available technologies
- Difficulties in pricing risk
- Lack of pilot projects to demonstrate technology

Further information

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