SCALING UP INNOVATIVE INFRASTRUCTURE FINANCING

REFERENCE GROUP ON INFRASTRUCTURE MEETING

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Content

• Why Innovative finance for RE

• Required intervention for scaling up financing

• Action to Scale up RE Investment

• Geothermal Risk Mitigation Facility (GRMF)

• Recommendation
Unlocking investment in renewable energy will open up substantial opportunities throughout the African economy.

Renewable energy investment must double over the next few years globally.

Most of the investment needed could come from the private sector.

Market barriers and a perception of high risk constrain the financing of renewable energy.

Important roles for policy makers, financial institutions and investors.
Enabling Policies
- Policy
- Regulatory framework
- Project Preparation Facility

Risk Mitigation Instruments
- Resource Risk
- Political Risk
- Regulatory Risk
- Grid & transmission Risk
- Currency Risk
- Liquidity Risk
- Refinancing risk;

Structured finance Mechanisms
- Pension funds,
- Insurance companies,
- Sovereign wealth funds
- Climate fund
ACTIONS TO SCALE UP RENEWABLE ENERGY INVESTMENT

- Advance renewable energy projects from initiation to full investment maturity.
  - Support project preparation through capacity building and dedicated grants
  - Facilitate interaction between project developers and investors,

- Mobilise public investment for RE development and mitigation risk

- Engage local financial institutions in renewable energy finance
  - Develop dedicated resources and build capacity at local financial institutions
  - Design and implement on-lending facilities for renewable energy projects
ACTIONS TO SCALE UP RENEWABLE ENERGY INVESTMENT

- Mitigate risks to attract private investors
  - Streamline procedures and redirect institutional incentives for risk mitigation instruments
  - Develop new risk mitigation funds or facilities for emerging markets

- Mobilise more capital market investment.
  - Establish standardized project documentation, tendering, contracting and due diligence processes
  - Expand the project pipeline and aggregate projects
  - Develop policy and guidelines for green bond

- Create facilities dedicated to scaling up renewable energy investment.
  - Establish financing facilities to issue risk mitigation instruments, cover transaction fees, or support the design of structured finance mechanisms
  - Utilise various funding sources, including climate finance, to provide resources for dedicated financing facilities for renewables at national, global or regional level
Geothermal Risk Mitigation Facility (GRMF)

www.grmf-eastafrica.org
Significant upfront costs at high risk – before the success of the project has been secured!

Public and private investors to invest in Geothermal Energy

Filling the gap: Public support mechanisms are crucial to remove entry hurdles into geothermal power development
Financial Support and Eligibility

ELIGIBLE ENTITIES:
- Public Companies
- Private Companies
- Public Private Partnerships (PPP)

ELIGIBLE COUNTRIES:
- Ethiopia, Kenya
- Rwanda, Tanzania,
- Uganda, Burundi,
- Comoros, Djibouti,
- DRC, Eritrea
- Zambia.

GRMF FINANCIAL SUPPORT

- **Infrastructure grants**: Up to 20% of the costs for infrastructure for surface studies drilling programmes (access roads, water, power)
- **Surface studies grants**: Up to 80% of the costs (excluding infrastructure costs)
- **Drilling grants**: Up to 40% of the costs for the exploration drilling and testing programme for reservoir confirmation wells (excluding infrastructure costs)
- **Continuation Premium**: Up to 30% of the developer’s share for the drilling and testing programme in case developers wish to continue with project (depending on the availability of funds).

Donors:
- **BMZ**: Euro 20 M
- **EU**: Euro 30 M
- **DFID**: £ 47 M
- All fund channel through KfW
Projects awarded grants in 1st, 2nd and 3rd Application Rounds:

- 17 Projects awarded Grants.
- 7 grants awarded to Surface Studies
- 10 grants awarded to Drilling Programmes
- Most projects from Kenya and Ethiopia
- One project from each Djibouti, Rwanda and Comoros
- The total grants awarded is USD 58.5 Million
- 10 projects has been qualified in 4th application round
GRMF CHALLENGES

- Secure Developers’ Own Share;
- Institution and Legal framework;
- Delay in Implementing GRMF funded Projects;
- Limited Availability of Experts;
- Limited/ no participation from some beneficiaries countries.
Recommendation

- Public fund is necessary for scaling up the RE investment in Africa.
- Innovative financing is necessary for RE Deployment in Africa.
- Improve enable policy and regulatory framework for private sector.