



# Renewable Energy Guarantees

Proposal made under the External Investment Plan

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*Isabelle Van Grunderbeeck, EIB*

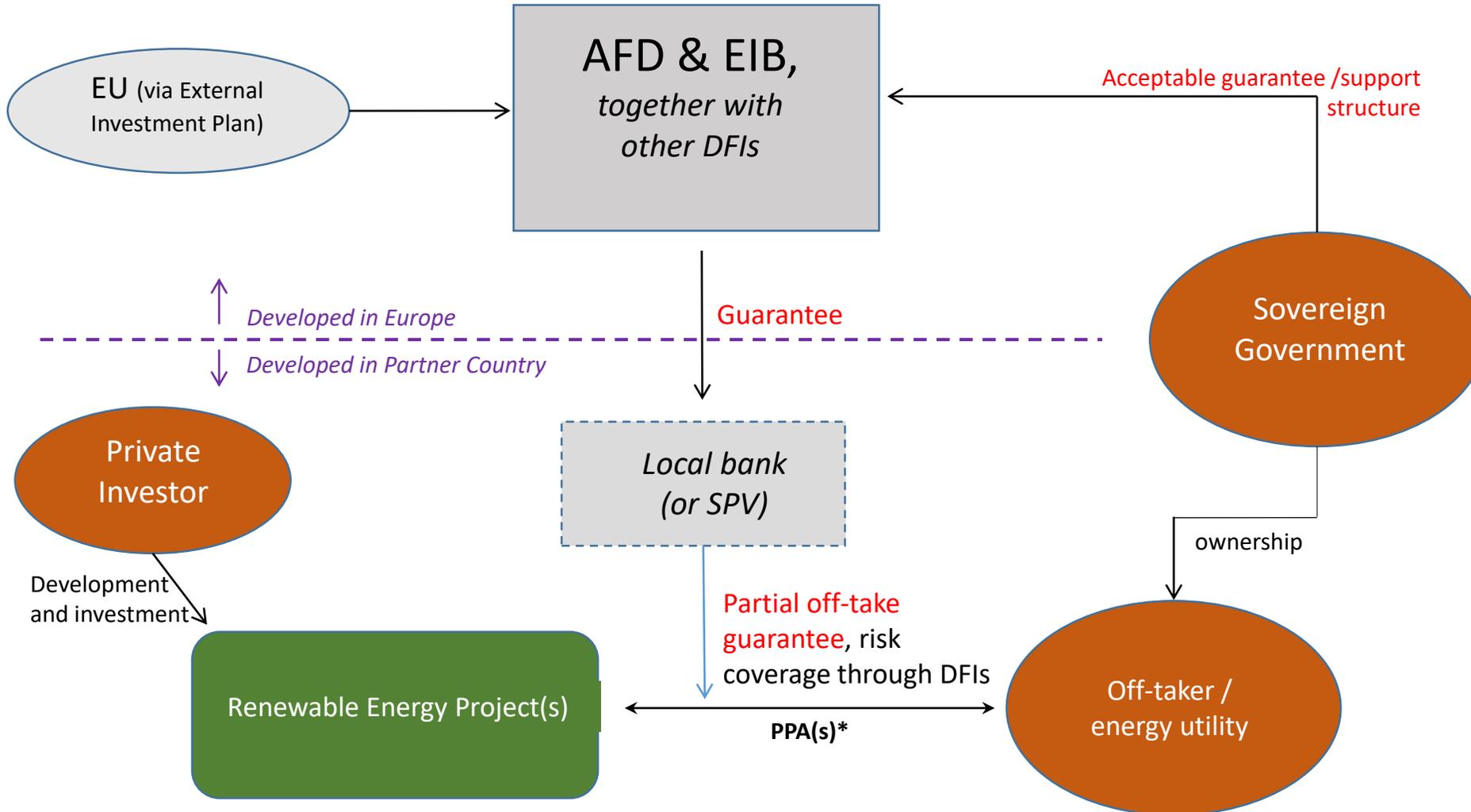
## Proposal Description

- **A joint AFD and EIB proposal**, however open to other Development Finance Institutions (DFIs)
  - ✓ Italian CDP has recently become part of the initiative
  - ✓ Close discussions with KfW
  
- A comprehensive package of support – **across all three pillars of the External Investment Plan (EIP)** - to the renewable energy sector in a range of countries in sub-Saharan Africa and the Neighbourhood region
  - ✓ **Guarantees:** De-risking to mobilise private investments
  - ✓ **Technical Assistance:** Tender process, Project Implementation Units, ...
  - ✓ **Investment Climate:** Adequate standards, open tenders, ....

AFD, EIB and partner DFIs will provide co-guarantees – providing partial risk coverage on the payment obligations of public off-takers for renewable energy projects

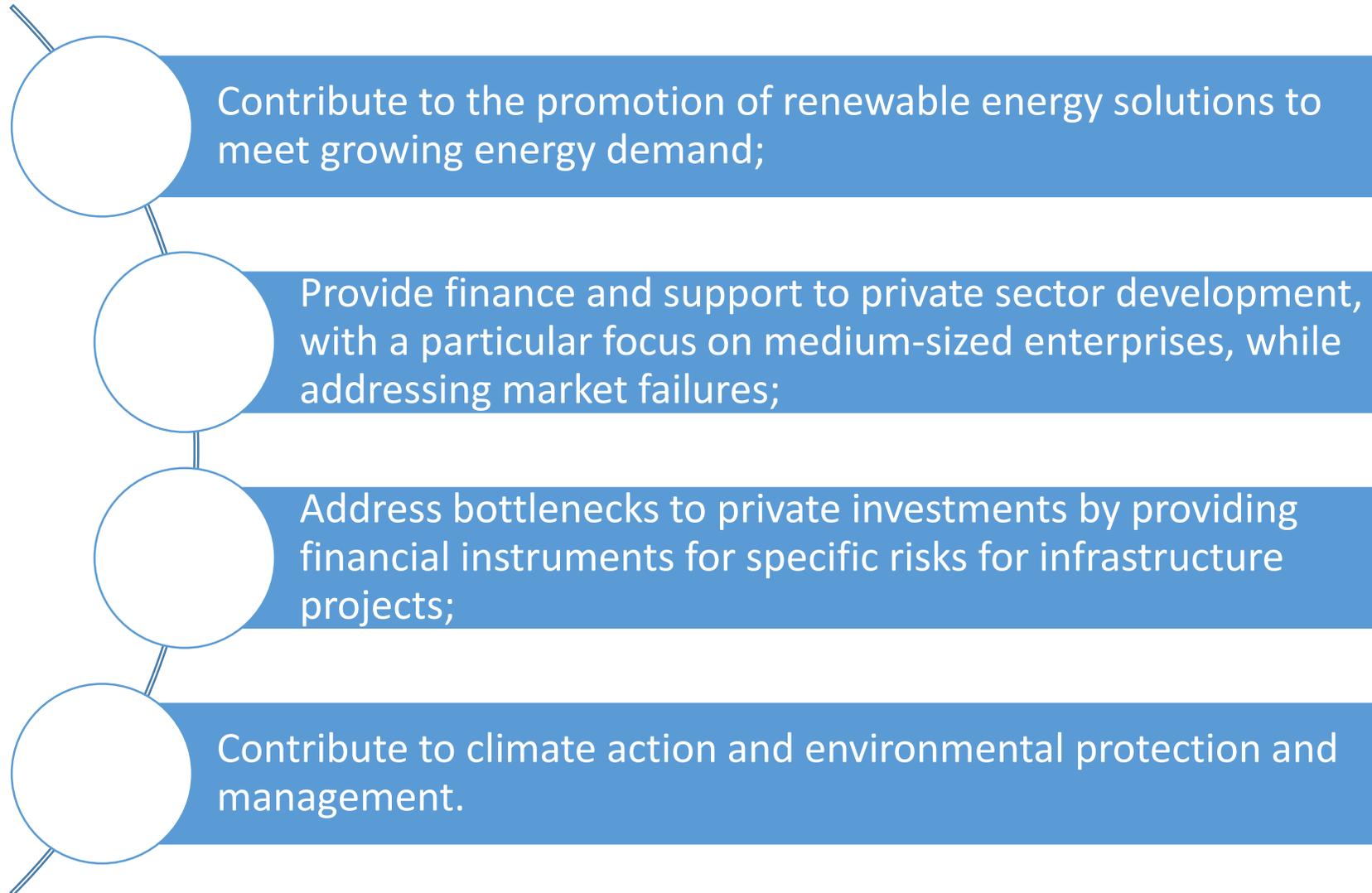
- ✓ This addresses a key issue in the sector - the lack of creditworthy off-takers which deters private investment
- ✓ Alignment of interests with host government

# The structure



\*Power purchase agreement(s)

# Policy Context – Main objectives



## A comprehensive proposal

- ✓ AFD and EIB are applying for Technical Assistance (Pillar 2) to support:
  - the implementation of the Renewable Energy Guarantees;
  - the enabling environment to facilitate private investments in renewable energy;
  - the regulatory framework and energy sector dialogue through TA and policy dialogue;
  - power utilities to become commercially viable.
  
- ✓ Partnership with the European Commission for the promotion of an inducive Investment Climate (Pillar 3)
  
- ✓ Expected timeline: 4 years to develop a portfolio of projects.

## Sustainability

- This guarantee scheme has been designed to create a sustainable (i.e. long term) solution; availability of the EFSD guarantee will facilitate the set up of the guarantee scheme.
- Combined with TA and promotion of a conducive investment climate in the country, it will help creating sustainable benefits for the sector once the guarantees support expires.

## Inputs

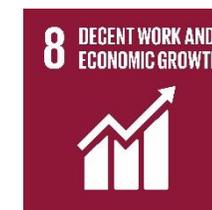
- Guarantees on payment obligations of off-takers
- Technical Assistance
- Support to conducive investment climate

## Outputs

- Increased private sector investment
- Increased renewable energy capacity (MW)
- Renewable energy capacity rehabilitated (MW)
- Increased institutional know-how and technical knowledge in public utilities and across sector

## Outcomes

- Electricity produced from renewable energy sources (GWh/yr)
- Households which could be supplied with energy generated by the project
- Increase in reliable, affordable, clean energy access for households and firms



## EU's added value

AFD and EIB may not always be in a position to provide guarantees at levels expected by investors/lenders. Hence sharing part of the risk with the EU will allow to **better serve market needs**.

Furthermore, the **'soft-power' value of the guarantee will be stronger with several institutions co-guarantying together**: a default under the guarantee means a default on AFD, EIB, the EU and/or any other participating institution (like CDP).

**Participation of the EU shall improve the level of expected recoveries in case of default**, due to its very close access to local public sector.

## The take away

- ✓ Certainty of payments under off-take agreements is one of the most important considerations for investors.
- ✓ The guarantee scheme, currently developed under the lead of EIB can help by providing partial risk coverage.
- ✓ A crucial element of the guarantee scheme will be the engagement of the sovereign government.
- ✓ Ultimate beneficiaries of the guarantees will be private investors of IPPs.

# Thank you for your attention



# Risks

- **Implementation risk:** delays in implementing the guarantees, costly and cumbersome procedures for Guarantee management and selection of projects → project preparation with TA to utilities and ministries is crucial;
- **Political risk:** change in political priorities or political instability → importance of EU delegations' involvement to maintain the commitment of the Sovereign Government and/or the offtaker;
- **Economic risk:** poor pipeline planning and asset management → Technical Assistance should mitigate this risk, in particular at the inception stage.