

Risk and Reward for Renewable Energy Investors in Africa



The question of risk vs reward is paramount to investors in any sector, but it has a particular significance when seeking to attract investors to renewable energy in emerging markets. That is why the International Renewable Energy Association (IRENA) held two workshops on the subject in Nairobi on January 2018. Julian Richardson of Parhelion was pleased to speak at both.

The first event looked generally at risk mitigation for renewable energy financing and was co-hosted by the REPP¹. Whilst total investment in to African renewable energy has been between US\$8.5bn and US\$3.6bn since 2012 it needs to increase to US\$32bn per year by 2030².

Since African renewables are competing against all other investment opportunities (i.e. different technologies and geographies) to attract this capital, the risk / reward profile will need to be attractive. The risks are well known, and significant work is being done to strengthen the project pipeline, reduce the barriers to project origination and increase project visibility. Similarly, dedicated risk mitigation facilities have been established in order to reduce risk perception.

Along with a number of good presentations³ two particularly interesting new risk facilities were profiled, both focused on credit risk issues associated with power off-takers. Africa Greenco⁴ is an intermediary aggregator sitting between buyers and sellers of power. It works as a financially sustainable intermediary offtaker and power trading company. It also hopes to stimulate regional electricity trading.

¹ Renewable Energy Performance Platform - Funded by UK Gov., European Investment Banks and UNEP.

² Source: IRENA and BNEF 2017

³ See: <http://www.irena.org/events/2018/Jan/Risk-Mitigation-in-Renewable-Energy-Investments-in-Africa>

⁴ See: <http://africagreenco.com>

The Regional Liquidity Support Facility⁵ was profiled. This facility was developed by Africa Trade Indemnity and provides up to 6 months credit protection against default by the power off-taker. ATI selects a bank that issues a stand-by letters of credit to approved Independent Power Producers, with the backing of the RLSF. The RLSF funding comes from KfW, the German government development bank and totals €31m. The scheme targets solar PV, hydro, onshore wind, geothermal, biomass, or cogeneration projects with an installed capacity of 50MW in ATI member countries.

The second IRENA meeting focused on the geothermal power sector. Geothermal has huge potential in East Africa but so far little has been developed. Parhelion provided an overview of a report it produced in conjunction with GeothermEx (part of Schlumberger) in April 2017⁶ on behalf of Power Africa and the US Energy Association. This looked at existing risk mitigation mechanisms available for geothermal energy investment in East Africa and went on to recommend what else might be needed. This constituted a financing mechanism, titled the GeoFutures Facility, to support early stage project development costs and premium finance to guarantee power output (measured in MWe) from a development drilling program. We were pleased to be able to announce at the conference that Parhelion had been shortlisted by the Green Climate Fund for an investment to take forward the core elements of the GeoFutures Facility⁷.

It is clear that all these risk mitigation schemes help complete a complex jigsaw of instruments available through both public and private sector offerings to support investment in to clean energy in Africa. That said, all the risk mitigations instruments in the world cannot make a bad project good. The onus remains on the project developer to put together a good project and for host country governments to create an investment environment conducive to attracting private sector investors.

For further information on risk management of renewable energy investments and wider climate finance questions please contact us via: info@parhelion.co.uk

⁵ See: <http://www.ati-aca.org/energy-solutions/facilities/regional-liquidity-support-facility/>

⁶ See: <http://www.parhelion.co.uk/wp-content/uploads/2018/02/GeoFutures-Facility-Final-Draft-170402.pdf>

⁷ See:

https://www.greenclimate.fund/documents/20182/730867/RFP_Mobilising_Funds_at_Scale_Shortlisted_Concept_Notes.pdf/c4542b0f-3596-402b-b1d4-df77b9891261