



**RECP**

Africa-EU Renewable Energy  
Cooperation Programme



# Africa-EU Renewable Energy Cooperation Programme (RECP)

*Supporting Early-stage Project Development*

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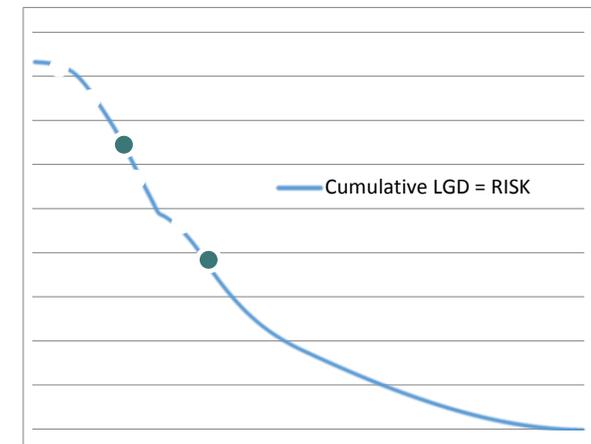
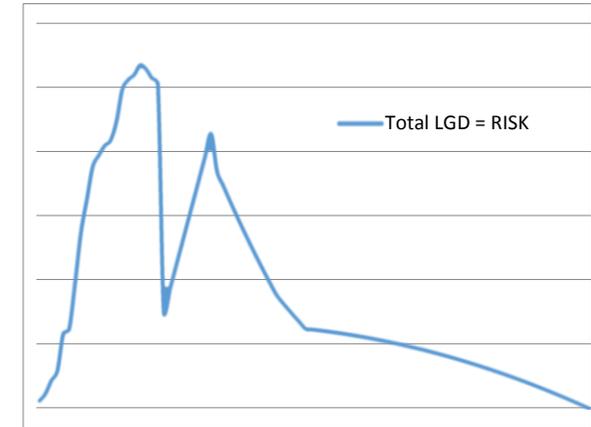
# Overview

- RE Market in SSA
- Support Mechanisms
- Next Steps

# RE Market in SSA

# RE Market in SSA (1 of 4)

1. Good development cannot be compressed, the desire to help accelerate deployment must not result in reduced scope of work
2. Project risk increases during development peaking at financial close, deadlines in project contracts usually further accentuate this risk
3. Before operations phase, value can only be crystallised at FC and COD, the ability to sell partially developed projects is complex
4. Project finance is a slow process, to put it off until post-commissioning is to increase significantly project risk



## RE Market in SSA (2 of 4)

5. Developers are chronically short of capital, and this is the single greatest factor behind the motivation to reach financial close
6. Small developers very often get bought out by larger developers, this “development food chain” ensures the best projects rise to the top
7. Origination takes place through direct negotiation or competitive tender, the latter achieves much faster RE deployment
8. Private sector is able to pick “low hanging fruit”, at a next stage it may be necessary to provide support for less suitably located sites
9. The current deflationary environment is placing additional time pressures on developers

## RE Market in SSA (3 of 4)

9. No shortage of longer-term equity for bankable projects, lack of early risk capital often due to difficulty in achieving alignment of interests
10. Difficult to implement long-term debt financing solutions for projects of less than 5 MW, inability of revenues to support high fixed costs
11. Lack of “affordable” and/or long-term local currency financing results is an added risk for investors, only permanent solution is to channel domestic savings into domestic investment
12. Corporate financing for smaller ventures does not receive attention from DFIs, which have a very risk-averse business model

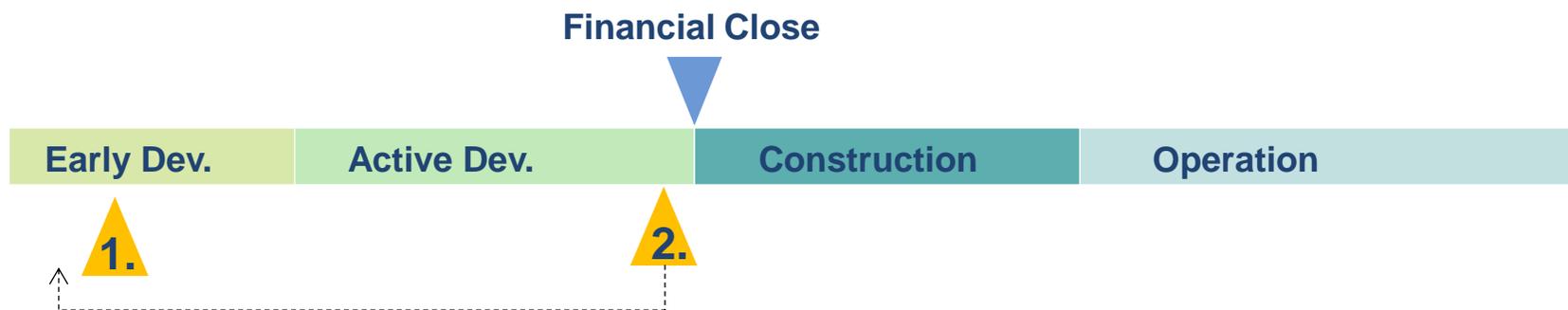
## RE Market in SSA (4 of 4)

13. There are the “classic” problems preventing projects from reaching financial close, many of which could be avoided
14. Vested interests have until now prevented any serious attempt to provide the market with standard development tools
15. Corruption has changed form and is now intertwined with development premiums/fees, hardly recognised by those not highly motivated to identify it
16. Push economics, over-supply of liquidity, intense competition may be pushing the market into uncharted territory...

# Support Mechanisms

# Defining the Scope of Early-Phase Support

1. The obvious approach would be to restrict the definition to support provided only during the early development phase
2. One can also argue that it can include support provided at any stage of the development life cycle, the pre-existence of which impacts the “Go / No Go” decision taken during early development
3. In this presentation we will focus primarily on the first set of potential solutions



# Potential Early-Phase Support Mechanisms

	<i>Provide Support to Private Sector Developers</i>	<i>Provide Financing to Private Sector Developers</i>	<i>Carry Out Proprietary Development</i>
	Technical Assistance	Financing Model	Development Model
Early-Phase	<ul style="list-style-type: none"> <li>● Proforma Support Services (<b>PFS</b>)</li> <li>● Tendering Support Programme (<b>TSP</b>)</li> </ul>	<ul style="list-style-type: none"> <li>● Venture Fund (<b>VF</b>)</li> <li>● Matching (<b>MVF</b>)</li> </ul>	<ul style="list-style-type: none"> <li>● Dev. Company (<b>DevCo</b>)</li> <li>● Cooperative (<b>Coop</b>)</li> </ul>
Active-Phase		<ul style="list-style-type: none"> <li>● Debt Fund (<b>DF</b>)</li> <li>● LC Debt Fund (<b>LCDF</b>)</li> <li>● Tariff Top-up (<b>TTU</b>)</li> <li>● Pol. Insurance (<b>PRI</b>)</li> </ul>	

# Early-Phase Support – “Technical Assistance”

TA	Financing	Development
<ul style="list-style-type: none"><li>• PFS</li><li>• TSP</li></ul>	<ul style="list-style-type: none"><li>• VF</li><li>• MVF</li></ul>	<ul style="list-style-type: none"><li>• DevCo</li><li>• Coop</li></ul>

## 1. Proforma Support Services: Comprehensive development support services focusing on the key “tools of the trade”

There is a lack of available pro forma documents, templates, financial models for smaller developers. “Toolkit” deployment would need to be accompanied by accessible experts.

Could expect strong opposition from all stakeholders with vested interests.

## 2. Tendering Support Programme: Deployment of technical experts that assist local governments in locating sites, collecting resource data, and organising competitive tenders

Not particularly innovative (ref. IFC’s Scaling Solar), however considered to be highly effective in unblocking the pipeline.

Avoids all issues relating to exit options, valuation, and asset management.

# Early-Phase Support – “Financing Facilities”

TA	Financing	Development
<ul style="list-style-type: none"><li>• PFS</li><li>• TSP</li></ul>	<ul style="list-style-type: none"><li>• VF</li><li>• MVF</li></ul>	<ul style="list-style-type: none"><li>• DevCo</li><li>• Coop</li></ul>

1. **Venture Fund:** Involves public funding deployed in a commercial manner, either managed by a new entity or an existing fund manager. Funds used to finance developer external costs, with funding converted into “sweat equity”. Commercial viability doubtful, lack of staffing expertise would result in high moral hazard.

2. **Matching Venture Fund:** Instead of funding developers, this mechanism would only be available to private sector investors on a matching basis.

Could be managed with a smaller team having a more focused skill set, and would also almost eliminate the problem of moral hazard.

# Early-Phase Support – “Development Model”

TA	Financing	Development
<ul style="list-style-type: none"><li>• PFS</li><li>• TSP</li></ul>	<ul style="list-style-type: none"><li>• VF</li><li>• MVF</li></ul>	<ul style="list-style-type: none"><li>• DevCo</li><li>• Coop</li></ul>

## 1. DevCo: Limited liability company fully staffed with technical and financial professionals

Intent would be to develop a pipeline of project and to sell them to private sector developers during the start of the “active” development stage.

(i) Not a commercially profitable activity; (ii) will granting authorities accept? (iii) valuations, ability to exit, potential shareholdings; (iv) moral hazard.

## 2. Coop: Agency staffed with development professionals managing financial assistance covering developer internal and external costs

Intent would be to select a group of partnering developers and to (i) partially cover their internal costs and (ii) pay them premiums upon milestone completion.

(i) Moral hazard; (ii) corruption; (iii) operational efficiency.

# Next Steps

# Questions for Consideration

1. Will private sector stakeholders share the public sector vision with respect to early-phase project support ?
2. Should development be approached as a profitable stand-alone activity?
3. To what extent should support be directed only to the very early phase of development?
4. What are some ways to mitigate the inherent problems of moral hazard and vested interest?
5. By the end of this session, what input will you provide the team with respect to core strategy and focus?



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**Thank you for your attention**

[www.africa-eu-renewables.org](http://www.africa-eu-renewables.org)

