

13 November 2008

How to finance energy projects ?

The French Development Agency perspective

Virginie DAGO

développeur d'avenirs durables



Different needs depending on the status of the project

- Need for funding for **project preparation & feasibility studies vs. investment**
- Funds needed for the financial and technical feasibility but also EIA costs, legal fees, transaction advisory fees ...

The Project Preparation Feasibility Study Fund co-funded by AFD&DBSA (PPFS Fund)

- **Target** : African Regional Projects (NEPAD)
- **Funding of** project preparation and feasibility studies and, when there is a lack of capacity, of technical support
- **Prioritization** needed on the regional level but also locally (need to find committed sponsors)

PPFS – Energy Projects

- **Interconnexion projects:**

Zambia / Tanzania / Kenya

Kenya / Ethiopia

Ghana / Burkina Faso

Mozambique North – South

Inga / Pointe Noire / Cabinda

- Kenya / Uganda Oil Pipeline
- Zambia : Kafue Gorge lower Hydro
- Zambia : ZESCO (Kariba North, itezhi Tezhi, ...)
- Mozambique : Mpanda Nkuwa Hydro station

- **Southern Africa Power Pool (SAPP)** Tariff
Study to facilitate power trade and promote investments
- **Transborder Energy projects study**
Develop a practical cross-border financing and institutional
- **Westcor** Address the power demands of the SADC through construction of INGA 3 generation stations and transmission lines from RDC to Angola, Namibia, Botswana and South Africa

Financing the investments

- What is a bankable project ?
- Who is the off-taker ? At what price ?
- Is the PPA secured ? Long term PPA ?
- Role of ESKOM in Southern Africa.

The South African context

- Consensus on the need for feed-in tariffs
- Who is likely to buy 'expensive' energy ?
 - Companies who value the non financial gain from buying RE (CRS)
 - Industries who want to be independent from ESKOM and any possible load-shedding
 - Companies who want to meet the 10% savings requirement

Common hurdles for projects developers in South Africa

- Proposed PPA's are not satisfactory mainly because the price is too low
 - The normative framework is unclear while in the actual context a long term view is required because of long term investments
 - Project developers are highly exposed during the feasibility phases without any guarantee of an off-take
 - High local banking rates
 - Project finance is not enough developed yet, while corporate finance doesn't suit best RE projects