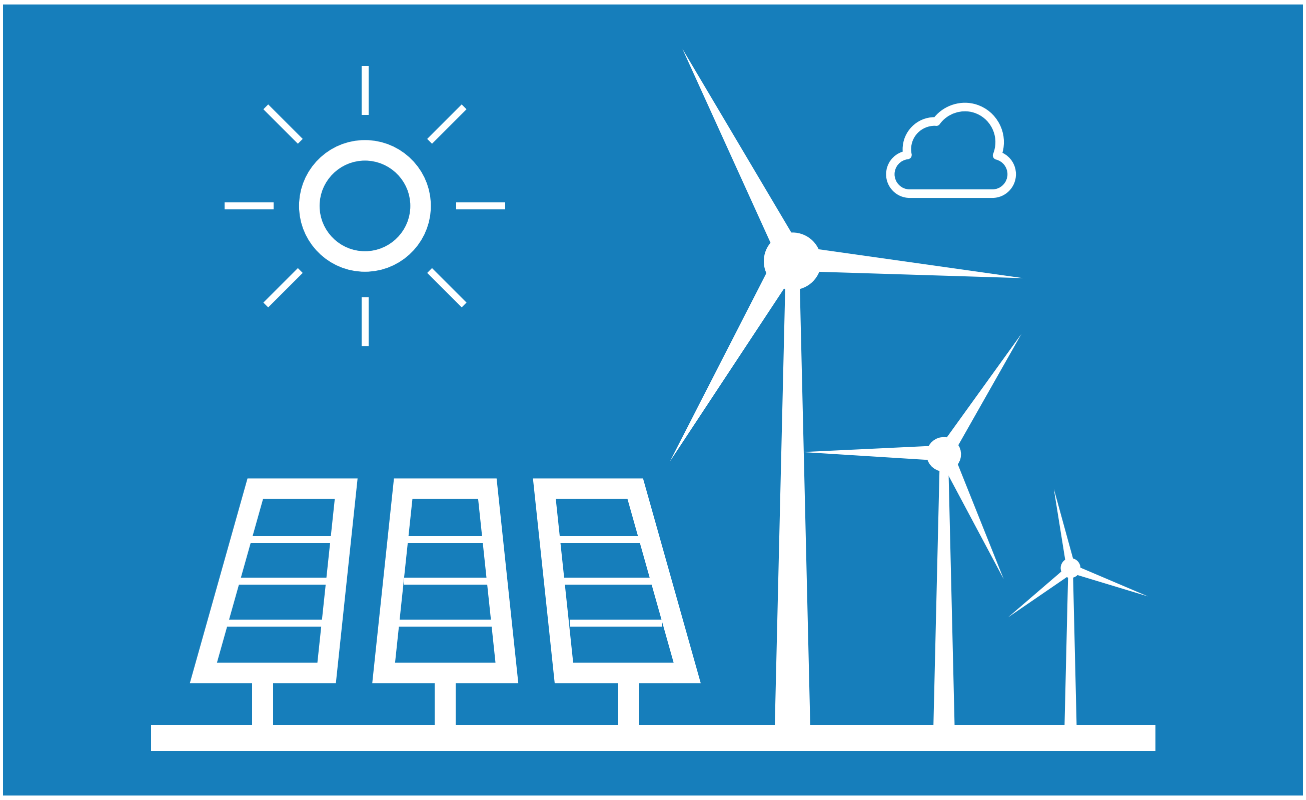
The ROCKEFELLER FOUNDATION

CONVERGENCE
BLENDING GLOBAL FINANCE

AFRICA GREENCO
Africa Green Regional Energy: Efficient, New and Creditworthy Offtaker

Africa GreenCo: A PPP to De-Risk and Scale Up Sustainable Investments in the African Power Sector



Date and Time: 14th November 2017, 16:00 - 17:30 at the EU Pavillion, Bonn Zone

Focus Country: Zambia

Opening Introduction:
Ambassador Anthony Mukwita, Zambian Ambassador to Germany

Moderator
Lorenzo Bernasconi, Senior Associate Director, Innovative Finance and Impact Investing, The Rockefeller Foundation

Presenter
Cathy Oxby, Chief Commercial Officer, Africa GreenCo

Panelists
Dr Amani Abou-Zeid, Commissioner for Infrastructure and Energy, African Union
Roberto Ridolfi, Director for Sustainable Growth and Development, DG for International Cooperation and Development, European Commission
Astrid Manroth, Director, Transformative Energy Partnerships, African Development Bank
Johnson Maviya, Environmental Officer, Southern African Power Pool
Alex Simalabwi, Executive Secretary, Global Lead-Water Climate Development, Head-Africa Coordination Unit at Global Water Partnership Southern Africa

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CONTEXT

Over 600 million people in Africa currently have no access to electricity. The need for affordable, reliable and sustainable energy - particularly in a part of the world seriously affected by climate change - is imperative. The African Development Bank estimates that universal access to electricity in Africa by 2025 requires an additional $40-70bn annual investment in the sector. Financial support for new generation currently depends on the public sector, but the scale of the challenge makes this unsustainable. On the other hand, counterparty risk renders the alternative - private sector finance - both complex and expensive.

CHALLENGE AND OPPORTUNITY

The global deployment of renewable energy is increasing, creating a virtuous circle that is driving a global renewable energy revolution – which has so far resulted in over 50% of capacity additions in recent years coming from renewable sources. Sub-Saharan Africa is likely to be at the heart of this global shift, harnessing it will transform Africa's economies with genuinely sustainable and inclusive growth.

However, no one has successfully addressed the issue of creditworthiness of energy offtakers and the lack of a viable power market to sell production, both of which present serious obstacles to increasing the much needed investment in new generation capacity.

Over the past few years, the equity returns achievable by developers of energy and infrastructure projects in developed markets have fallen dramatically, particularly in the renewable energy sector where state subsidies have been progressively withdrawn. There is now a deep pool of international capital looking for investment opportunities with appropriate risk-adjusted returns but the majority of these potential investors still view a long- term investment in the African power sector as a highly risky venture. One aspect of this is the substantial "at risk" time and cost involved in project development, another is the difficulty faced in "banking" a long term power purchaser agreement with an uncreditworthy counterparty.

THE CURRENT APPROACH

Independent power producers generally sell all of their generation capacity to a single, financially weak, national utility. This sole reliance on a single buyer results in heavy dependence on the host Government to backstop the utility's obligations, placing a heavy burden on the sovereign balance sheet. Further credit enhancement through financial instruments issued by the international development community is also often required. These financial instruments do not however address the underlying structural and market weaknesses that make private sector investment in infrastructure so challenging.

In order to access the necessary capital, new structures need to be developed to create lasting, scalable changes in how power markets operate. Such new structures should be focused on a programmatic approach to energy development and planning, rather than the prevailing project-by-project approach and should recognise and utilise the existence and increasing liquidity of the regional power pools.

THE AFRICA GREENCO SOLUTION

Africa GreenCo represents an innovative solution to this problem in the form of a host Government co-owned but independently managed, creditworthy intermediary offtaker and power services provider to sit between renewable electricity generation companies on the one hand, and both state owned and private sector offtakers on the other. GreenCo will operate as a member of the African regional power pools, aggregate offtaker credit risk and diversify both supply and demand side risks on a regional basis. In case of a utility defaulting, GreenCo will rely on various risk mitigation tools including the right to exercise an option to sell power to other utilities/bulk power purchasers via the power pool.

The long-term vision for the African power sector involves liquid electricity markets through which energy resources can be optimised on a regional basis and lead to lowest cost generation and security of supply for all. In contrast to credit enhancement of individual power purchase arrangements, which reinforces the bilateral model and does not help to move the market towards this long-term goal, Africa GreenCo is an operating entity, embedded in the local electricity sector and able to take practical steps to diversify and mitigate risk. Africa GreenCo works in close collaboration with host Governments and national utilities and will act as a pathfinder for future electricity service providers, demonstrating the benefits of a multi-buyer, multi-seller approach and acting as a stepping stone to a fully liquid market.

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