

# Risk Mitigation in Renewable Energy Investments in Africa

Panel Discussion 3:

Success stories of providing and utilizing risk mitigation instruments for renewable energy projects



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**IRENA, REPP, CIF**

**WORKSHOP**

**Nairobi**

**105 MW MENENGAI PROJECT  
AfDB PARTIAL RISK  
GUARANTEE**



AFRICAN DEVELOPMENT BANK GROUP

# 1. Which risk mitigation instrument was used and which risks did it help to address?

## 105 MW MENENGAI PROJECT: ADF Partial Risk Guarantee (PRG)

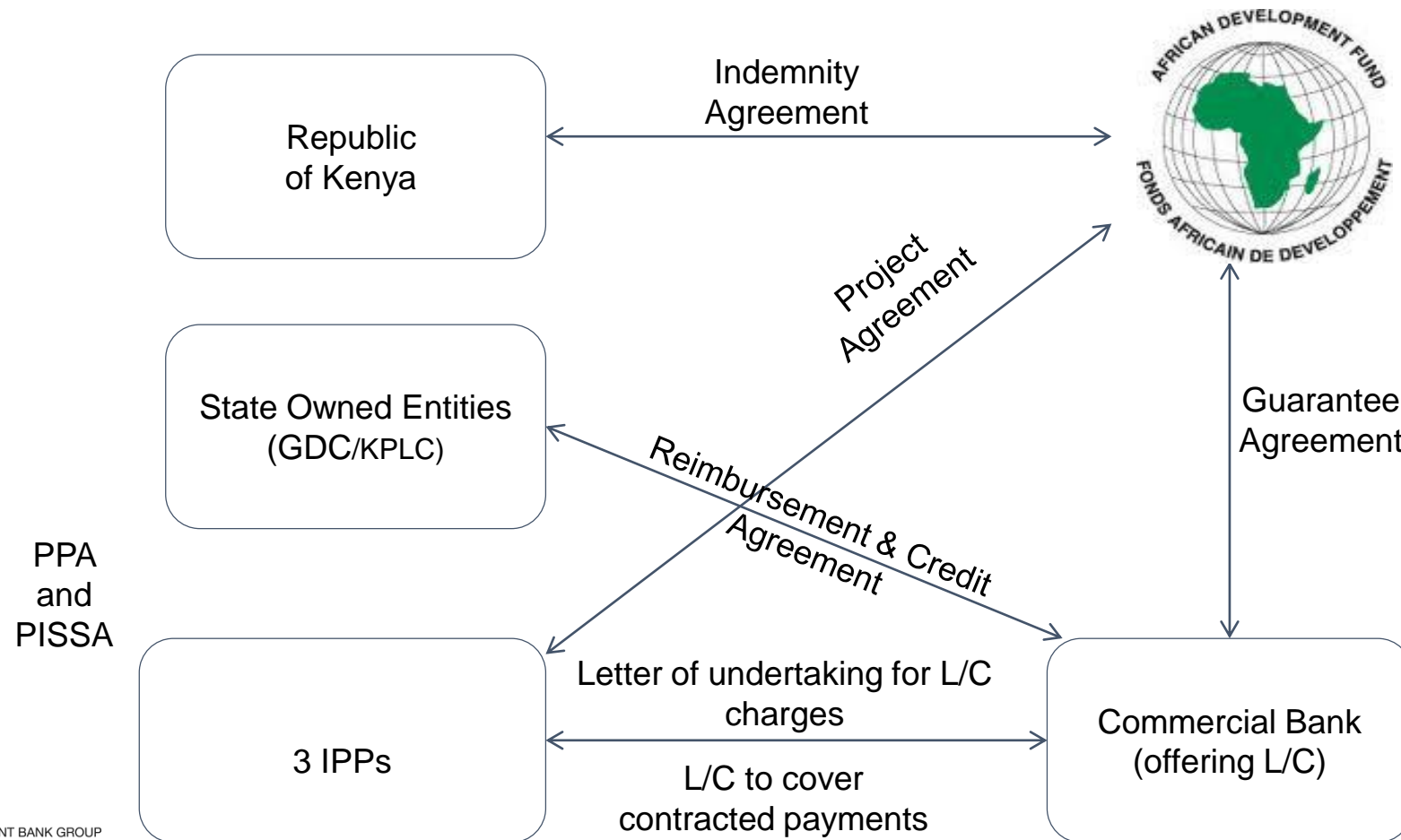
- PRG in support of three Independent Power Producers (IPPs), who will generate power from the Menengai geothermal field.
- The PRG mitigates against non-payment under the Power Purchase Agreements (PPAs) between Kenya Power Lighting Company (KPLC) and the IPPs, due to either
  - (i) KPLC's inability to take power generated and ready to be evacuated by the IPPs or
  - (ii) The IPPs' inability to generate power due to GDC's default under the steam supply agreements (PISSA).

## 2. What was the effectiveness of the risk mitigation instrument?

- IPPs requested a PRG, as KPLC/GDC would not be providing escrow payments. (Escrow for every IPP is costly and ties down funds in a non-interest bearing account, hence the requirement for a PRG, which leverages less for more.)
- The IPPs development of the project would not be realized in the absence of the PRG
- PRG increased private sector appetite in transaction

### 3. Key strengths of the risk mitigation instrument that were particularly unique or beneficial?

The PRG letter of Credit (L/C) structure covers both the breach of the PPAs and/or the PISSA obligations for 3 IPPs. (There cannot be a simultaneous breach, as without steam there is no power.)



## 4. What factors enabled the successful utilization of the instrument?

- Project Design/Design
  - Formation of GDC as an SPV to support geothermal development assisted the government to reduce upfront risk and attract private investment
- Government support and commitment, Government Letter of Support
  - Menengai model where GDC takes steam risk has been touted as one of the best models for accelerating geothermal development – the same model is likely to replicated in Tanzania
- Collaboration among donor partners & climate funds. Risk mitigation funds such as SREP/Climate Investment funds to accelerate development of projects
- Technical assistance – Training and embedding consultancies as part of financing
  - Technical assistance and use of consultants has helped to build capacity of implementing agencies especially to handle transactions
  - SREP grant was used to support GDC to procure drilling simulator which is used by GDC for training its staff and scientists from other African countries