

Powering IPPs

A unique renewable energy facility for Africa that removes liquidity risks and ensures the success of IPPs



Implemented by:
KFW



African Trade Insurance Agency
Agence pour l'Assurance du Commerce en Afrique

Designed to tackle liquidity

The RLSF provides Independent Power Producers (IPPs) the liquidity that they need in the event that their off-taker (frequently a state owned entity) delays payment.

RLSF will provide immediate cash collateral supported by guarantees to a bank that will in turn open a stand-by L/C to the benefit of the IPP.

The amount provided will be up to the equivalent of 6 months of the IPP's revenue.

Eligibility

- ▶ RLSF will mainly consider IPPs in ATI member countries (visit www.ati-aca.org for a current list of countries).
- ▶ Sufficient support of the host government and the utility for the project.
- ▶ Projects with an installed capacity of up to 50 MW and in exceptional cases up to 100 MW.
- ▶ Supported technologies: Solar PV, Hydro, Wind, Geothermal, Biomass (using waste-to-energy), Cogeneration (using a renewable feed-stock).
- ▶ ATI will assess and underwrite projects according to its guidelines (financial sustainability, environmental and social impact, off-taker risk and government support, etc.).

Created to meet market needs

Background

IPPs face a number of challenges before they reach financial close.

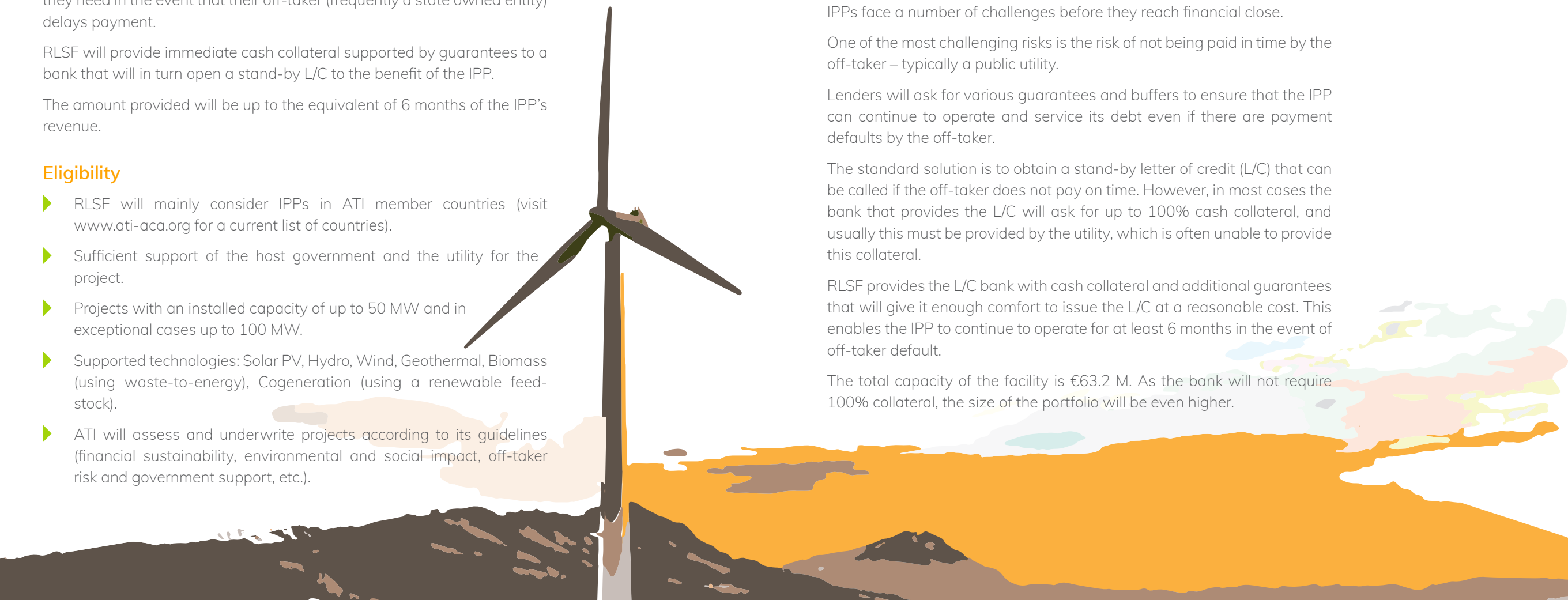
One of the most challenging risks is the risk of not being paid in time by the off-taker – typically a public utility.

Lenders will ask for various guarantees and buffers to ensure that the IPP can continue to operate and service its debt even if there are payment defaults by the off-taker.

The standard solution is to obtain a stand-by letter of credit (L/C) that can be called if the off-taker does not pay on time. However, in most cases the bank that provides the L/C will ask for up to 100% cash collateral, and usually this must be provided by the utility, which is often unable to provide this collateral.

RLSF provides the L/C bank with cash collateral and additional guarantees that will give it enough comfort to issue the L/C at a reasonable cost. This enables the IPP to continue to operate for at least 6 months in the event of off-taker default.

The total capacity of the facility is €63.2 M. As the bank will not require 100% collateral, the size of the portfolio will be even higher.



Easy to understand

Product Description

ATI, as manager of the facility, will instruct a bank to issue L/Cs to approved IPPs with the backing of the RLSF.

ATI has an umbrella agreement with the bank that sets the terms and conditions under which the bank will issue Letters of Credit. ATI assesses each potential transaction, ensures that the project has the full support of the utility and the Host Government, and activates its preferential relationship with the Government (as a preferred creditor) in the case of payment delays. Once ATI has approved a transaction, the bank will issue the L/C to the IPP.

Whereas such L/Cs are traditionally valid for 1 year, the bank will issue L/Cs with tenors up to 10 years.

Alongside the RLSF facility, ATI continues to offer its traditional products of political risk insurance. ATI can also insure the PPA termination risk, although the different covers are not necessarily linked.

How it Works

The bank that provides the L/C is protected by the funded cash component that serves as a first loss buffer. The cash will be deposited in an escrow account and will be available immediately upon drawdown under the L/C.

The second loss guarantee is provided by ATI and matches the funded component 1:1. It is available on-demand to the L/C bank in case the first loss tranche is exhausted. Accordingly, the L/C bank does not take any risk except its pre-agreed share of own retention.

When an IPP experiences payment delays, it can immediately draw from the L/C and thus continue debt repayment to its lender(s). It replenishes the L/C as soon as it is paid by the utility.

Away with obscurity

Transparency

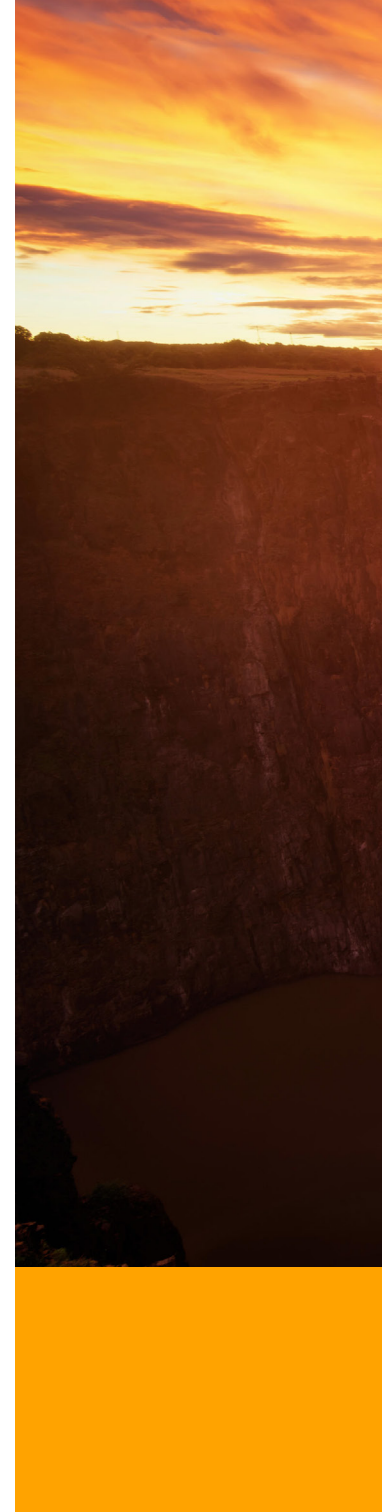
RLSF has a web based platform where IPPs will report the actual payment made by the off-takers, and where IPPs from the same country will share their data. The actual aggregate performance of each utility will be periodically made public. Over time, this will provide an objective view on the creditworthiness of the utilities, compared to their perceived risk. This in turn should help banks and other lenders adjust their pricing and possibly reassess their need for collateral. Ultimately this can contribute to lower end-user tariffs.

Stakeholders

- ▶ ATI will implement the RLSF. ATI is a multilateral investment insurer of credit and political risks with capital in excess of USD240 M. ATI has been profitable for the last 6 consecutive years and has an A rating from S&P. Its main shareholders include 14 African member countries as well as the African Development Bank and institutional investors.
- ▶ KfW initiated the RLSF. The German Federal Ministry for Economic Cooperation and Development (BMZ) provided the funds and cash component to set up the RLSF. In December 2016, the BMZ approved a total investment grant amounting EUR 31.6 M and a grant of EUR 1.3 M.

Contact

Any enquiries, questions and comments can be addressed to
rlsf@ati-aca.org
Tel. +254 (0) 722 202 006/7





ATI, Kenya Re Towers, 5th Floor,
Upperhill - Nairobi, Kenya



rlsf@ati-acca.org
www.ati-acca.org



+254 20 272 6999 or
+254 722 205 006/7