

THE RURAL ENERGY AGENCY (REA)



Unlocking Domestic Finance for Rural Energy Projects

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Outline

1. Financing Rural Energy Projects;
2. Types of Project Financing
 - Foreign Financing;
 - Domestic Financing;
3. Unlocking Domestic Finance

1. Financing Rural Energy Projects

Why Financing Rural Energy Projects:

- Besides project's direct impact on the national GDP, there are few other facts and figures which makes clear why rural energy projects should be financed;
 - Financial, Technical or even human resources limitation; and
 - Need for increasing energy access in rural areas; and
 - Improve socio-economic development and transformation of rural livelihoods.

Current Financing of Rural Energy Projects:

- **Foreign Financing;**
 - Involves financial supports from foreign Governments, Bi-lateral and Multi-lateral Agencies and International financial institutions in form of grants, subsidies, Technical Assistance and loans.
- **Domestic Financing.**
 - This involves project financing from Private sectors, Institutions (Bankers, and social security funds), Entrepreneurs (Business men) and stock exchange

1. Domestic Finance.

Existing Gaps/Challenges.

- Lack of adequate financial instruments to the last mile energy services and equipment;
- Lack of conducive environment for private sector investment in off grid areas;
- Fragmented energy access market: most of the population lacking access to modern energy services are dispersed and not properly mapped which is a challenge for companies providing services to the market;
- Reluctance of private sectors to invest in energy projects due to perceived off-taker's risks during project development; and
- Lack of technical expertise in preparation of bankable project documents

8. Unlocking Domestic Finance - Financing Windows

Financing windows available through:-

- Rural Energy Fund (REF)
 - Government Budgetary Allocations;
 - Funds from Development Partners.
- Special Purpose Funds
 - World Bank Financial Support through the Off-Grid Component of the Tanzania Renewable Energy Expansion Programme (TREEP);
 - Sida Trust Fund;

Available Opportunities in the form of:

- Matching Grants (Renewable Energy Project Development facility – REPDF);
- RBF Grants (Performance based financing);
- Credit Line for Long Term Financing;
- Carbon Financing;

8. Unlocking Domestic Finance – Financing Windows...

Matching Grants (Renewable Energy Project Development facility – REPDF)

- Provided to enable project developers carry out pre-investment activities like:

- Feasibility Studies;
- Socio-economic and market analysis studies;
- Environmental and Social Impact Assessment;
- Preparation of Bankable Business Plans; and
- Training and Capacity Building.

RBF Grants (Performance based financing)

- Provided to buy down the capital Investment cost of the project and to eventually lower the unit cost of the energy service provided. Size of RBF Grant depends on the Tier and technology under consideration:

- Electrification project: Tier 5=US\$ 600 per Connection; Tier 4=US\$ 500 per Connection; Tier 3=US\$ 300 per Connection; and Tier 2 =US\$ 25 per connection

8. Unlocking Domestic Finance – Financing Windows...

Matching Grants (Renewable Energy Project Development facility – REPDF)

- Matching Grants provided so far is for:
 - 38 small hydropower projects have been supported;
 - Total potential capacity of about 108 MW;
 - US\$ 4.63 Million provided.

RBF Grants (Performance based financing)

- Performance Grants – For Projects Development
 - 7 projects have been supported (Mwenga, Maguta, Andoya, Lupali, Isigula, Matembwe and Mawengi)
 - Total potential capacity of about 108 MW;
 - About 11,000 connections;
 - US\$ 5.1 Million provided

8. Unlocking Domestic Finance – Financing Windows...

Long Term Project Financing:

- Credit Line to provide long term financing to rural energy projects:
 - Tenure up to 15 years and 5 years “Grace Period”.
- Commercially and Competitively Operated, commercial banks interested to participate apply to Scheme to be shortlisted;
- Prospective projects apply for the loan through shortlisted banks;
 - Five shortlisted Banks: CRDB, NMB, NBC, Azania Bank and United Bank of Africa (UBA);
 - Floating on-lending rate to shortlisted Banks re-calculated after every six (6) months.

8. Unlocking Domestic Finance – Financing Windows...

Carbon Finance:

- Provided to rural energy projects through a CDM Programme of Activities (PoA);
- CDM PoA coordinated and managed by REA;
- REA has an agreement with Carbon Partnership Facility of the World Bank for purchase of the Certified Emission Reduction (CERs);
- Total potential of about 30 projects for the programme with a total of around 100MW;
- Crediting period 2013 – 2020 with possible extension to 2022;
- Advance payment for 40% of all potential CERs to be used to bridge the equity gap.

THANK YOU

