

The Solar Facility

A blended finance facility comprising of an investment, insurance and payment guarantee fund

Background- Why the Africas

Africa has a solar potential of 70 GW (by 2030), however, only 11.5 GW is installed currently. The total installed solar capacity in Africa makes for only 1.3% of the global solar installed capacity (total installed - 907 GW)¹. For Africa, to meet the solar potential of 70 GW by 2030 (estimates by agencies such as IRENA), the continent would require an investment of at least USD 60 billion. Latest estimates by the IEA also indicate a total installed capacity potential of 510 GW in Africa by 2030, with ~125 GW from solar energy only.² Solar energy is a growing and important contributor to the green economy and low carbon growth in Africa. However, despite these positive developments, investment in solar still lags in Africa region. The cumulative renewable energy investment in sub-Saharan Africa over the last two decades was just 2% of the global investment³.

Challenges in financing solar energy sector in Africa

Financing of solar energy sector face several barriers and challenges primarily due to the nascent stage of sector, limited regulatory support environment, and lack of availability of domestic capital. The cost of capital is high due to underdeveloped capital markets, emerging market risk, and political risk. Lack of cost reflective tariffs and delays in approval/licensing makes financing and operations of solar companies challenging, especially mini-grid players. Lack of uniform application of tax regime for solar, leading to higher costs for solar developers. Domestic lending to solar enterprises across the countries is low further constraining access to finance for the sector.

Objectives- The solar facility

The solar facility aims to catalyze solar investments in the underserved segments and geographies of Africa, thereby unlocking commercial capital. The facility would focus on investing across solar technologies – off-grid solar, rooftop solar, productive use solar, utility scale solar – across Africa through a country specific intervention approach. ISA will stimulate investments into solar through a financing vehicle (the solar facility) with the following three components:

- a. Solar payment guarantee fund
- b. Solar insurance fund
- c. Solar investment fund

The solar facility will accelerate high potential solar technologies, by attracting private capital to flow into underserved markets in Africa, while ensuring a payment and insurance mechanism as a first loss guarantee.

¹ Solar Outlook 2022 – AFSIA

² Solar PV Leading Capacity Installs in Africa with 125GW by 2030 – IEA – PV Tech

³ Renewable Energy Market Analysis: Africa and its Regions - 2022

Solar Payment Guarantee Fund

The Solar payment guarantee fund will support projects at the time of default and reduce risk of early closures/bankruptcy of solar energy projects. Projects will pay a premium to be covered by this guarantee fund. It will reduce lenders' apprehensions and enable financing for projects that otherwise might not have received financing. The payment guarantee fund will only provide a partial guarantee to minimize free riders and bad projects. With minimal default, the guarantee fund would enable in the short term investment in geographies that do not receive investments, and in the longer term, enable investors to invest without recourse to Guarantee fund

Solar Insurance Fund

One of the key factors that affects the bankability of solar projects is the non-availability of affordable insurance products (specifically designed for the solar sector). It is primarily because the insurance provider have sector has limited historical data to determine the project viability for 25 years (lifetime of solar projects). Additionally, the understanding of insurance companies about solar PV systems/ projects in specific geographies remains limited. It results in costly insurance premia since they are considered as high risk markets. These high insurance premiums not only impact the overall project returns, but also impact the cash flow for projects especially during the initial stages (i.e., construction or the pre-revenue stage). The impact on cash flows often make the projects unviable for debt financiers. The Solar Insurance Fund will reduce the burden of insurance premium for solar developers in the pre-revenue phase of the project. It will offset the cost of insurance for a specified period (e.g., only for the construction phase of the project or pre-revenue phase). The insurance would be provided by organisation that are in the business of project insurance, such as MIGA. The projects could recoup the insurance premium covered by the fund during the pre-revenue phase of the project by charging an additional tariff during the revenue phase.

Solar Investment Fund

The investment fund would provide the core investment upto 10% of project costs in projects that are participating in the Solar payment guarantee fund and/or solar insurance fund. The core investment would provide the comfort of due diligence to other investors, and thus crowd-in other investors into these projects. It would help to:

01

Stimulate demand through TA facility (10% of the fund)– focused on creating a pipeline of bankable projects by supporting project development and building capacities of enterprises/ sponsors as well as local governments

02

Attract commercial capital providers– the Facility will bring risk capital on less-than commercial terms to make the risk-return profile of solar investments more favorable



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