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ACP-EU ENERGY FACILITY: Private Sector Participation

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ACP-EU Energy Facility: Background

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- EU Energy Initiative for Poverty Eradication and Sustainable Development (EUEI) launched in 2002 in Johannesburg
- Commission Communication COM (2004) 711 in October 2004 on the development of the EUEI establishes the Energy Facility for ACP countries
- ACP-EU Council formally approves the creation of a €220 million ACP-EU Energy Facility (EF) within the 9th EDF on 25th June 2005; First ACP-EU Energy Facility launched in June 2006
- 74 projects contracted under the EF I Call for Proposals (CfP) for a total amount of €196 million from the EF, with a total project cost of €430 million

ACP-EU Energy Facility: Objectives

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- Following successful implementation of the first EF 10th EDF Intra-ACP Strategy and Programming includes provision for a new EF with a total budget of a €200 million
- Objective: To increase access to energy services in rural and peri-urban areas while fighting against climate change

Focus on:

- Access to energy services in a pro-poor perspective
- Renewable energy and energy efficiency, use of local resources and decentralised solutions
- Productive use of energy beyond the basic service
- Promotion of sound energy policies and strategies

ACP-EU Energy Facility: Need for Private Sector Involvement

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- Available grant financing is not sufficient to meet the needs of energy investments in ACP countries (e.g. approx. \$30 billion of investments needed in the energy sector in Africa every year to maintain the existing infrastructures and raise household electrification rate from current average level of 24% to 35% according to AICD study)
- Commission Communication COM (2004) 711 establishing ACP-EU Energy Facility recognises that *“innovative and flexible funding mechanisms are urgently required to use the leverage effect of public resources and ODA and to attract more resources from the private sector...”*
- Energy Facility could have a leverage effect on private finance by involving private sector in energy service provision and by supporting public-private partnerships and innovative mechanisms

ACP-EU Energy Facility: Potential Role of Private Sector

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- Rural areas in ACP countries have a limited supply of electricity, many of them are far from interconnected national networks and their connection is unlikely in the short or medium term
- Decentralised solutions can provide energy services that are essential for people and economic development; Private sector know-how, technology and investment are needed in the energy sector, particularly in decentralised energy services provision
- Despite relatively higher upfront costs, renewable energy solutions can be profitable considering the long depreciation period of equipments and the potentially lower operating costs

ACP-EU Energy Facility: Challenges for Private Sector Involvement

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- Weakness of regulatory frameworks which promote investments in terms of security and predictability
- Insufficient involvement of local actors (authorities, private sector and communities) as well as absence of coherent energy strategies and planning
- Scarcity and cost of tailored financial instruments, which take into account the low population incomes, the small size of individual projects and the long period of investments return

ACP-EU Energy Facility: Addressing the Challenges for Private Sector Involvement

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Energy Facility aims to support the intervention of private companies in the energy sector by means of:

- Grant financing supporting actions that contribute to the establishment of an appropriate regulatory framework conditions, energy policies, planning, legislation and capacity building
- Grant financing supporting projects that envisage improving access to energy services in rural and peri-urban areas
- An innovative financing tool to blend grants with loans for medium-size investment projects for access to energy (including capacity building) in ACP rural and peri-urban areas

ACP-EU Energy Facility: Private Sector Participation in EF I

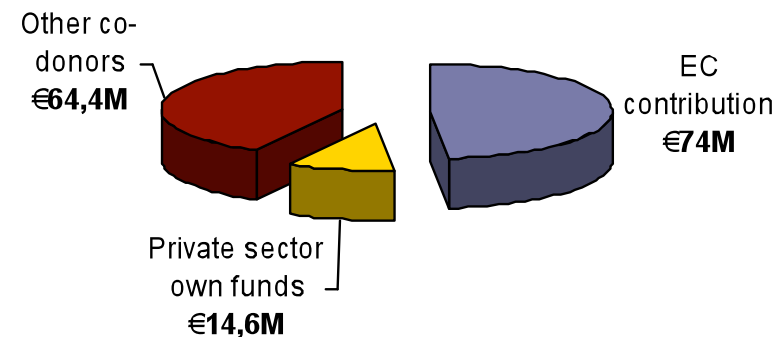
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Private companies are involved:

- ✓ As **applicant** in 12 projects (6 from ACP/ 6 from EU)
- ✓ As a **partner** in 14 projects

Private sector takes part on **small-scale initiatives** and **large infrastructures projects**

**Private Sector
Projects funding**



ACP-EU Energy Facility: EC Contribution Breakdown on EF I Projects

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Comp.2- Improvement of the management and governance of energy: **11 projects**

5% EC funding (10,58€ M)

Comp. 3- Improvement of cross border cooperation in the energy sector: **4 projects**

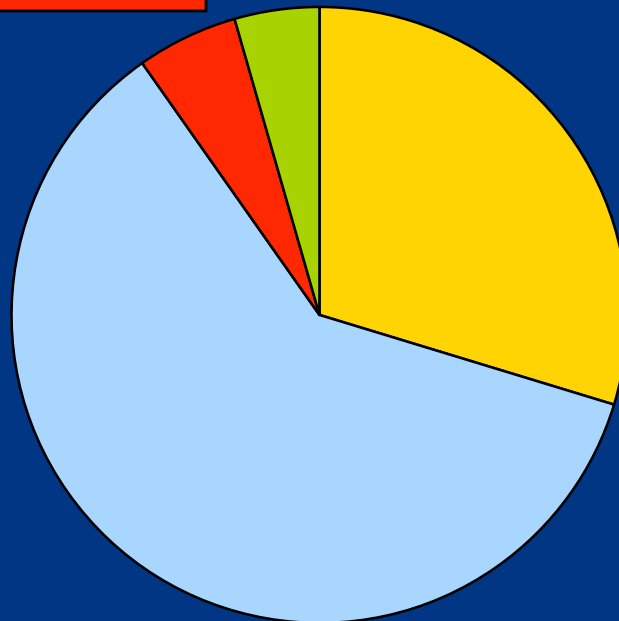
4% EC funding (8,57€ M)

Comp. 1a- Small-scale initiatives: **41 projects**

30% EC funding (58,01€ M)

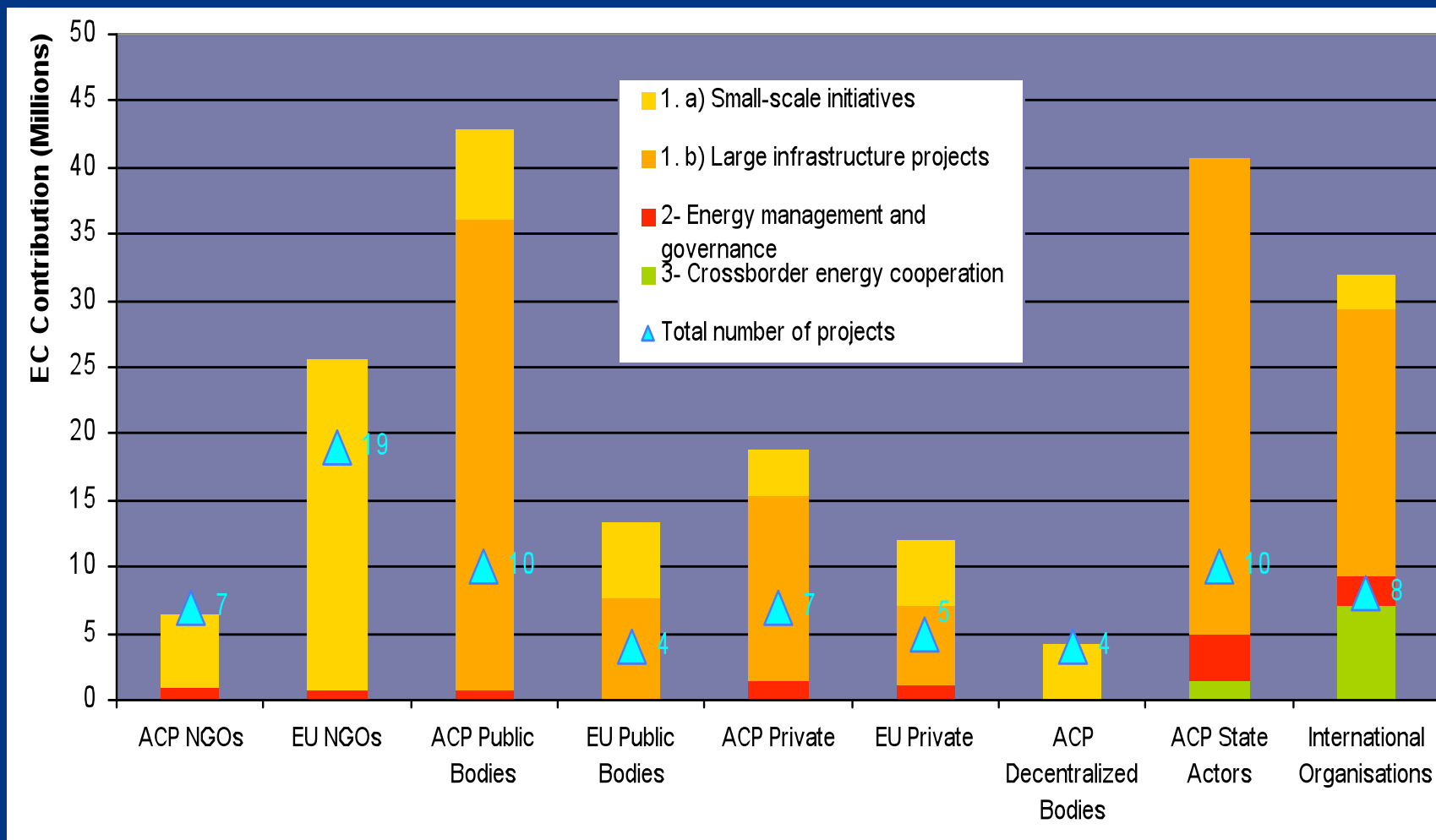
Comp.1. b- Large infrastructure projects: **18 projects**

61% EC funding (118,81€ M)



ACP-EU Energy Facility: EF I Funding and Breakdown by Applicants' Legal Status and Origin

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ACP-EU Energy Facility: Overview of Private Sector Involvement in EF I

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- Private sector is a large contributor to the projects selected under EF I with its support to 26 projects (out of 74 in total) as a project leader or as an important partner
- However, EF I results reveal a limited amount of private sector direct investment and loans on EF projects (only 9.5% of the total cost of the projects where the private sector is involved)
- Examples of private companies participation in EF I include technical assistance, performance of studies, production, distribution and selling of electricity, etc.
- Private know-how and investment are needed in the energy sector, particularly in decentralised energy services provision

ACP-EU Energy Facility II: Implementation Modalities and Future Private Sector Participation Opportunities

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Energy Facility II: €200M to be implemented via:

- Calls for proposals for access to energy and governance: €150 million
- Pooling mechanism for blending with loans and private sector investments: €40 million
- Specific governance support (outside the Call): €3.5 million to energy governance in the ACP countries

Potential applicants and partners:

- All ACP and EU stakeholders eligible (public, private, IO, NGOs)
- Compulsory partnership with ACP actors
- Non-ACP IOs allowed to participate as partners, co-donors or associates

ACP-EU Energy Facility II: Call for Proposals

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Two Calls for Proposals (€100 million and €50 million)

- Amount 1st CfP set according to the EC contribution requested in the 1st CfP for small initiatives and governance projects (comp.1a and 2)
- Should the results of the 1st CfP provide more high quality proposals than expected, extra funding could be mobilised
- Additional funds from the EU Member States will be searched to complement the €50 million reserved by the EF for the 2nd CfP

“Two-steps” CfP (concept note + detailed proposal)

- To allow better preparation of proposals and avoid unnecessary investment in project preparation/high level of frustration on potential applicants

ACP-EU Energy Facility II: Private Sector Participation in Call for Proposals

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- As Applicant or Partner: Rules applicable to EF Grants (Financial Regulation and PRAG) state that a grant can not give rise to profits during the period of implementation of the project. Profit defined as: *"in the case of a grant for an action, a surplus of receipts over the costs incurred by the beneficiary when the request is made for final payment."*

In the case of investment projects, the award of a grant should be justified by real public benefits, in terms of impact on development, poverty reduction and production of public goods

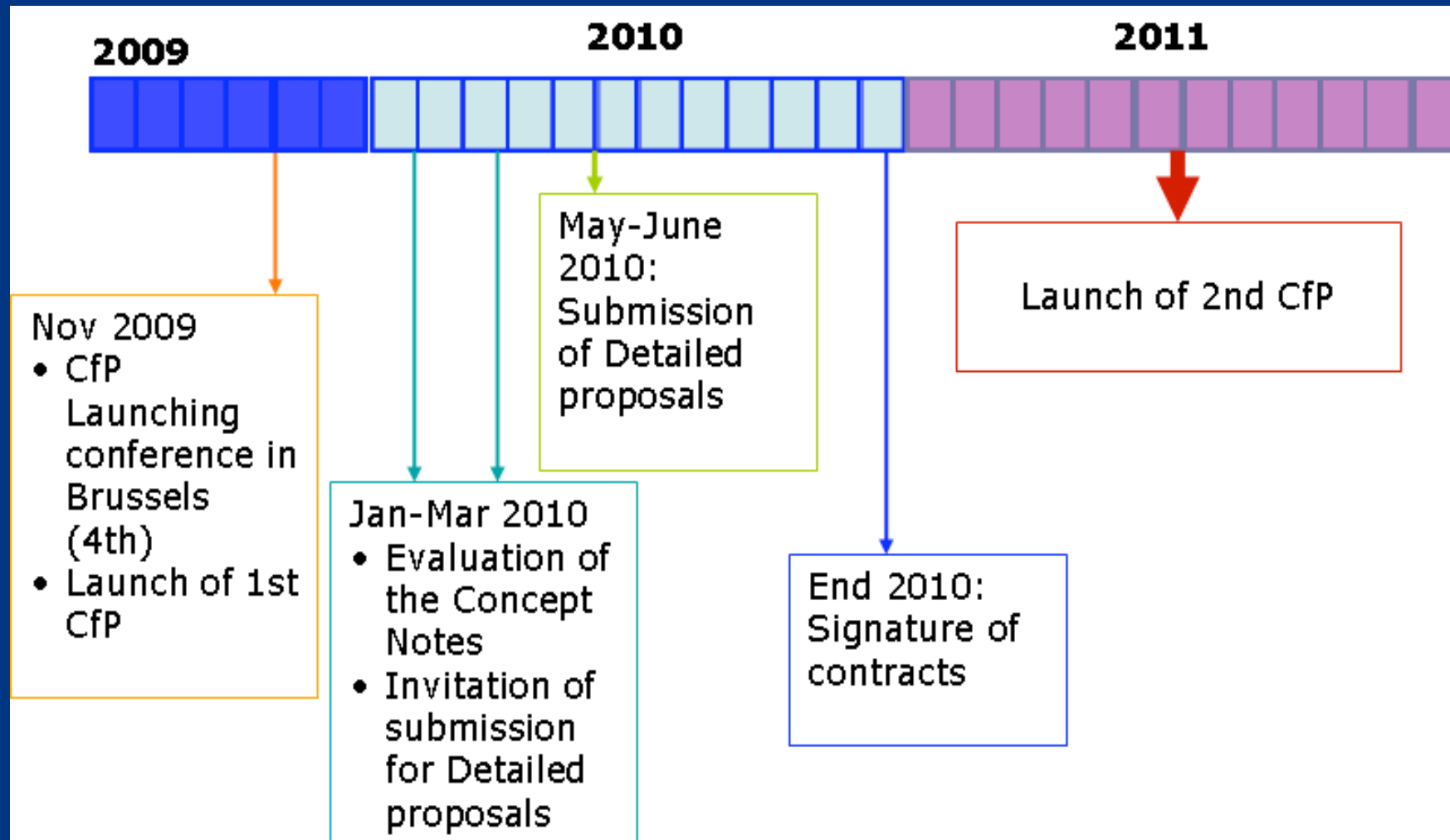
- As a subcontractor in the implementation of a project following a competitive procedure (a subcontractor can not be at the same time a partner or an associate)

ACP-EU Energy Facility II: CfP Provisional Financing Modalities



Project Type	EC Grant Min €	EC Grant Max %	EC Grant Max €
Investment Projects access to energy	500.000	75%	2.500.000
Governance and capacity building activities	200.000	75%	1.500.000

ACP-EU Energy Facility II: CfP Provisional Time Schedule



ACP-EU Energy Facility II: Pooling Mechanism Background and Objectives

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- To encourage private sector investments in energy sector in rural and peri-urban areas in ACP states
- To propose a flexible financing tool for medium-size investment projects for access to energy in ACP rural and peri-urban areas
- To maximise the impact of the Energy Facility grants through blending its grants with loans
- To better coordinate available resources and expertise

Eligible applicants:

- EIB, Member States, their official Development Cooperation Agencies and Development Financing Institutions

ACP-EU Energy Facility II: Pooling Mechanism Activities Financed

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Actions financed:

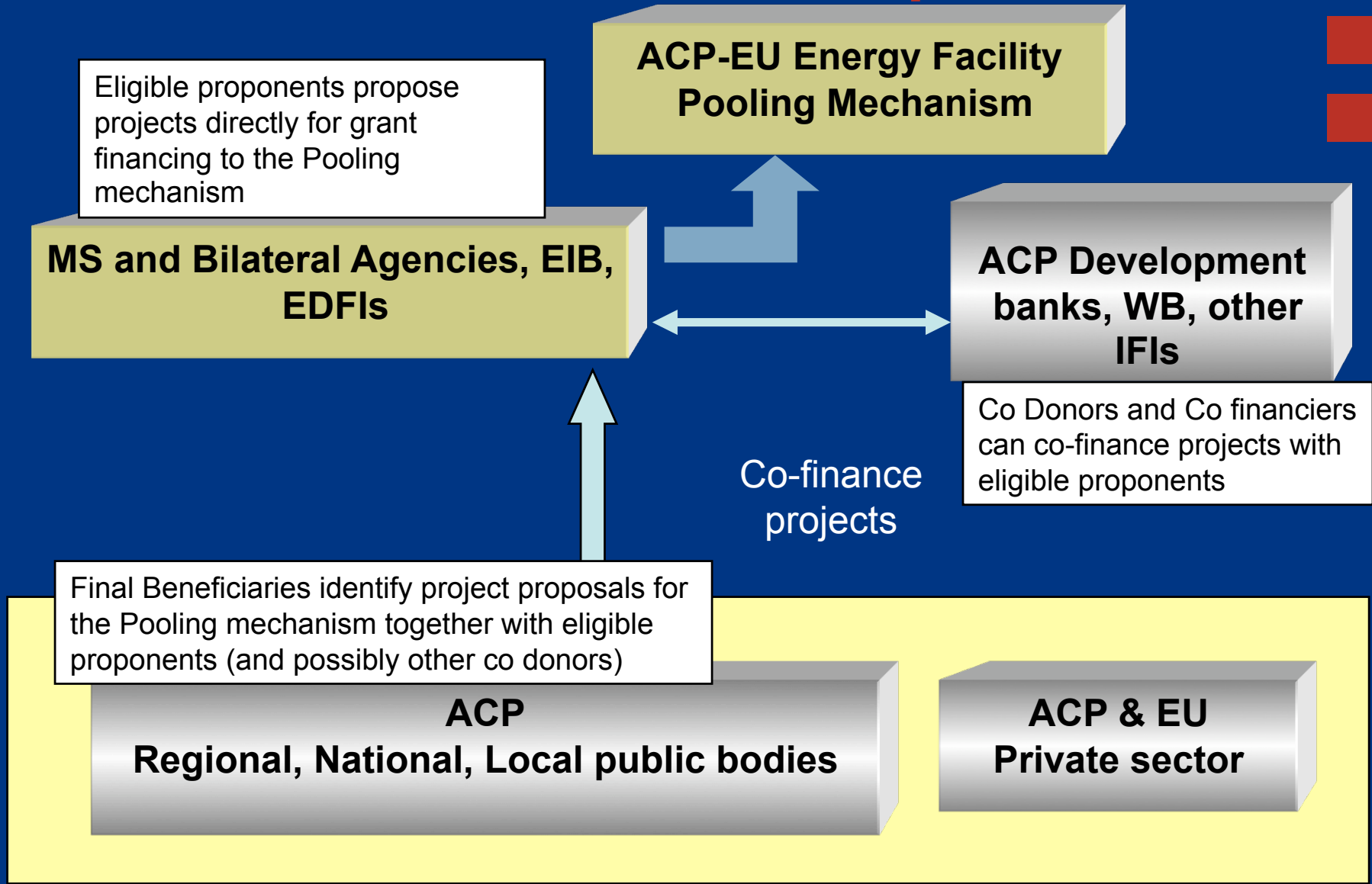
1. Infrastructure projects for access to energy in line with the principal objectives of the Energy Facility (within the range of approximately €10-50 million)
2. Governance, capacity building actions and advanced project preparatory studies

Types of Operations:

- Grants for direct investment (for projects initial investment costs)
- Interest rate subsidies (to enable the lenders to make long-term loan finance available at reduced interest rates)
- Technical assistance to finance advanced project preparatory studies as well as governance and capacity building activities when linked to a foreseen investment

ACP-EU Energy Facility II: Pooling Mechanism Submission of Proposals

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ACP-EU Energy Facility II: Pooling Mechanism Financing Modalities (indicative)

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Action Type	EC Grant		
	Minimum	Maximum	%
1. Investments projects access to energy services (including related capacity building)	€1 million	€5 million	Average 10-15% with a maximum of 25%
2. Advanced preparatory studies	-	€1 million	-

ACP-EU Energy Facility II: Specific Governance Support

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- To support ACP countries in the creation of an enabling environment for investment in the energy sector
- To support the development of regional, national and sub-national policies and strategies on energy access, including the development of energy legislation and investment plans
- To strengthen regional, national and sub-national energy expertise
- To be implemented through the **EUEI Partnership Dialogue Facility (EUEI-PDF)**. This is a multi-donor instrument operational since 2005 which provides support to African governments on energy governance and improvement of expertise in energy
- To be managed via a delegation agreement with GTZ

Thank you for your attention!

For more information please contact:

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<http://ec.europa.eu/europeaid/energy-facility>