Executive Summary

PROJECT FINANCE FOR RENEWABLE ENERGY SYSTEMS

Egypt case study
Risk Analysis and mitigation measures in the existing policy and regulatory framework

November 2018
About RES4MED & Africa

Renewable Energy Solutions for the Mediterranean & Africa
RES4MED&Africa

Who we are: RES4MED&Africa promotes the deployment of large-scale and decentralized renewable energy and energy efficiency in Southern-Mediterranean and Sub-Saharan African countries to meet local energy needs. Since its inception in 2012, the association gathers the perspectives and expertise of a member network from across the sustainable energy value chain.

Our work: RES4MED&Africa functions as a platform for members and partners of emerging markets to foster dialogue and partnerships, share knowledge and build capacity to advance sustainable energy investments in Southern-Mediterranean and Sub-Saharan African countries.

Our mission: RES4MED&Africa aims to create an enabling environment for renewable energy and energy efficiency investments in emerging markets through 3 work streams:

- Acting as a connecting platform for dialogue & strategic partnerships between members and partners to exchange perspectives and foster cooperation;

- Providing technical support & market intelligence through dedicated studies and recommendations based on members’ know-how to advance sustainable energy markets;

- Leading capacity building & training efforts based on members’ expertise to enable skills and knowledge transfer that supports long-term sustainable energy market creation;

At the end of 2015, RES4MED members decided to expand the geographic focus to Sub-Saharan Africa in light of the huge potentials and growth opportunities for Africa’s renewable energy sector.

Members: RES4MED&Africa gathers a network of 38+ members from across the sustainable energy value chain including industries, agencies, utilities, manufacturers, financing institutions, consultancies, legal and technical services providers, research institutes, and academia.

Partners: RES4MED&Africa works with local, regional and international partners, agencies and organizations to pursue its mission and promote renewable energy and energy efficiency deployment in the region of focus.
Executive Summary

With a population of about 97.5 million inhabitants, Egypt is one of the biggest and more relevant country in the Mediterranean area, ranked among the biggest developing economies of the African continent. Despite that, in the last years a combination of factors caused a slowdown in growth, which affected the Gross Domestic Product (GDP), attested around 235.37 billion US dollars in 2017, 29% lower than the former year, and inflation, increased by 27% in six months from January 2018.

Following the development and the demographic growth, the energy demand has raised, almost doubling in the last 10 years, boosting the installed capacity up to 45 GW, out of which fossil fuels represent 92% while renewable energies without hydropower only 2% (887 MW). A same scenario is portrayed in the generation mix, where renewables without hydro, even if they benefit from a dispatch priority, contribute for almost 1.5% in the electricity production. Nonetheless, thanks to the high resources in terms of wind and solar, the renewable energy sources (RES) represent a great potential in Egypt with an estimation up to 30 GW for wind and 50 GW for solar energy.

Since January 2013, an ever-growing commitment from the government has been demonstrated in promoting RES integration with a set of ambitious targets fixed through the Integrated Sustainable Energy Strategy (ISES) aiming at producing 20% of electricity from RES by 2022 and 42% by 2035. In the interests of laying the foundation for a blooming and competitive renewables market, several measures have been taken to adapt the policies and regulations framework in force and provide a clearer role of the public entities acting within the sector governance.

The Egyptian government provides the investors in renewable energy with a variety of procurements and supporting schemes, from EPC to BOO, IPP, FIT and Net metering. All these forms of contract are essential to develop projects, establishing a clear partnership between private and public sector, providing transparent agreements and laying the fundamentals for mitigating the typical risks associated with investments in RES. From the market experts standpoint the application of these contracts resulted in a discrete success but with room for improvement.

Independently from the specific country, investments in RES are exposed to a certain level of risk, which depends on the specificity of the technology as well as the general business framework and regulations of the targeted market. Back in 2016 a survey conducted by RES4MED and PwC outlined that the overall perception of the investment risks in Egypt – spanning from legal and social ones to financial ones - tended to be medium-high, mainly due to those risks affecting project revenues and financial structuring. The high level of vulnerability and unpredictability that the Egyptian economy is experiencing today is among the main causes of investors’ concerns about the entry in the local RES market.

1 Engineering Procurement and Construction
2 Build-Own-Operate
3 Independent Power Producers
4 Feed in Tariffs
5 RES4MED and PwC, “Survey on the main barriers affecting investments in RE capacity in the Mediterranean Focus on Southern and Eastern Mediterranean Countries (SEMCs)”, RES4MED, 2016
In the last years the Egyptian government has undertaken a wide and positive reform program with the purpose of mitigating the perceived risks and attracting investors in RES, confirming its willingness in expanding the national renewable energy market also in the light of meeting the targets at 2022 and 2035. Since 2016, most of the barriers spotted by renewable investors has been addressed, intervening both on the stability and clarity of the regulatory framework and on the improvement of macro-economic situation. Those mitigation measures are essential to foster the “bankability” of the projects, allowing investors to properly allocate the risks associated with the construction phase (or pre-completion phase) and the operation phase (or post-completion phase). Risk-sharing agreements between parties, such as PPAs, are necessary in order to reduce over-exposure and clarify responsibilities of each involved party. 

In order to reduce the various risks perceived which correspond in barriers for the investors, Egypt has to move from a first phase of reforming the overall investment framework for renewable energy to a second phase of application and improvement of that framework thus assuring a clear and effective regulatory framework, the availability of public finance instruments, an incentivising market and the access to contractual guarantees. Those are the key drivers to attract investors in the country and create the basis for a competitive market, lowering the levelised cost of energy.

Standardize the PPA contracts with a certainty on the power purchasing price, improve the guarantees coming from banks and the security of agreements, assure more convenient currency convertibility terms, allow easier cross border financial flows, establish provision of government guarantees, increase the availability of government financial resources, open up the capital markets. All those aspects, together with a more stable monetary policy from the Central Bank, become a must-have to increase the appetite on investments in RES in the Egypt.

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