



The critical role of multilateral institutions in MENA's renewable sector

Renewable energy developments in the Arab world have undoubtedly gained momentum in recent years. The main driver behind these developments is the strong support from governments that recognise the urgency of tackling rising demand for energy. In addition, multilateral development banks (MDBs) and development agencies have played a critical role in financing projects in countries like Egypt, Jordan, and Morocco at a time when international banks were reluctant to invest. Looking forward, MDBs will continue to support the deployment of renewables in the region as they prioritise green energy in an effort to address climate concerns.

Renewable energy developments in the region are making good progress. Several energy importing countries will continue to accelerate the development of their renewable-energy sectors as they aim to curb fuel imports. Several factors have been behind the impetus over the past few years. More limited fossil fuel production and a reliance on fuel imports to meet domestic demand and rising import bills have pushed Morocco and Jordan to diversify their energy sources. These two countries are spearheading renewable development in the region, while Egypt is also showing promising signs of kickstarting its ambitious renewable programme. But these countries are facing challenging fiscal conditions, which have meant that financing has had to be sourced from the private sector or the international community. MDBs and development institutions have played a critical role in the financing of renewable projects in these countries at a time when international banks have been reluctant to enter riskier markets. While this has attracted other private sector investment, the role of MDBs and development institutions will likely continue to play an important role in the future.

Rationale for MDB presence in energy

MDBs have historically played a strong advisory and financing role in MENA. Sectoral breakdown varies across countries with transportation and energy usually two of the main recipients of MDB financing. While other sectors such as education and health are also critical, there are several reasons behind the strong interest shown by MDBs in financing energy projects.

First, energy and development go hand in hand. Reliable access to electricity is one of the main drivers of sustainable economic growth, because of the benefits to other vital sectors of the economy including education, health, manufacturing, and services. With more than one billion people globally without access to electricity, MDBs understand that it will be hard to achieve sustainable development and poverty reduction without the access to reliable and sustainable energy. The World Bank has been involved in over 70 energy access projects in over 35 countries around the world, contributing more than \$5bn since 2010.

Second, MDBs prioritise sectors which are instrumental to development and are of substantial economic importance. Persistent power cuts and insufficient energy infrastructure has

repeatedly been one of the main reasons for social dissatisfaction and upheaval. At the same time, addressing climate change is a strong commitment and driving force behind MDBs' focus on green sources. The World Bank has recently announced that it will no longer provide investments in upstream oil and gas after 2019, in line with the Paris Agreement in 2015. The share of renewables in the energy portfolio mix has increased over the past few years and will continue to rise over the coming decades.

Third, MDBs typically enter sectors where other commercial banks are reluctant to join, mainly in countries with high political or economic risk factors. They are prepared to finance risky projects if there is a strong development mandate, whereas commercial banks only finance projects based on profitability and return on investment. Additionally, MDBs can provide favourable rates due to their strong capacity to borrow at low rates because of their higher credit ratings. More importantly, these institutions are comfortable with lending terms of 20 years or more, which is typical for renewable-energy projects, while commercial banks usually insist on more aggressive repayment schedules.

Major projects financed by MDBs & development institutions

Project	Location	Type	MW	Date	Financiers
Gebel El Zeit	Egypt	Wind	220	2018	JICA
Gebel El Zeit	Egypt	Wind	160	2018	EU/EIB/KfW
Quweira	Jordan	PV	103	2018	ADFD
Al Rajef	Jordan	Wind	86	2018	EBRD
Noor PV 1	Morocco	PV	170	2018	EIB/KfW
Noor II & III	Morocco	CSP	350	2018	AFDB/EIB/KfW
Gulf of Suez	Egypt	Wind	250	2019	JBIC/Int. banks
Tiskrad	Morocco	Wind	300	2020	EIB/KfW
Midelt	Morocco	Wind	150	2020	EIB/KfW
Jbel Lahdid	Morocco	Wind	200	2020	EIB/KfW
Boujdour	Morocco	Wind	100	2020	EIB/KfW
Tangier II	Morocco	Wind	100	2020	EIB/KfW

Sources: MEED Projects; APICORP Research

IFC funds the first wind project in Jordan

MDBs have been instrumental in Jordan's renewable energy success story. The country has made impressive strides in its renewable sector in recent years with the commissioning of the 117MW Tafila wind project in the second half of 2015, a milestone for the kingdom. The International Finance Corporation (IFC), European Investment Bank (EIB), and other international institutions provided financing for the \$287m project. The IFC's involvement persuaded other players, including from the private sector to get involved in the country's first renewable project. In addition to providing financing solutions, the IFC helped the government address regulatory and sector risks to improve the business environment to attract investment. The country is also expecting two major wind additions. Korea's Kepco 89MW Fujeij wind project, financed by the Korean export agency and Japan's Mizuho, will come on line in 2018. The second project is the 86MW Al Rajef wind project in Ma'an, financed by the European Bank for Reconstruction and Development (EBRD) and PROPARCO, expected to come on line this year.

As for PV, the country's ambitious target to reach 1GW by 2020 is also heavily dependent on financing from MDBs and other development agencies. The 103MW Quweira PV plant came on line this year in southern Jordan and was funded by the Abu Dhabi Fund for Development. Several small solar plants each with a capacity of around 50MW are currently under development, financed by various international institutions and banks. The 61MW Risha PV project is being financed by EBRD (\$22m) and Germany's DEG (\$16m), with a total cost of \$69m. More recently, the UAE's renewables company Masdar announced that it will build a 200MW PV plant in Jordan, which will be backed by the IFC and is expected to come on line in 2020. All told, the country has around 700MW of solar and wind projects under development or planned by 2020 with most projects relying on MDB financing, within which the EBRD alone is providing funding for nine projects.

IFC and EBRD show serious commitment to solar in Egypt

Solar projects have been slow to progress in Egypt, although there has been strong interest by investors in the Egyptian market. The country's low foreign reserves, volatile pound, and arbitration rules which require settlements to be made in Egyptian courts were all major concerns to international investors. More recently, though, these concerns have eased, as tariffs have been reduced and the aforementioned arbitration rules have been relaxed.

Financing remains the biggest obstacle to the government's plans to increase renewable capacity. Investments and capacity additions have long been the responsibility of the Egyptian government, but increasing demand and fiscal pressures have meant that the country has not been able to build capacity quickly enough to meet rising demand. Consequently, the government is having to look abroad - including the IFC and EBRD - to obtain the necessary financing. However, these organisations are not capable of providing financing for all required projects, nor are they interested in financing conventional power projects. The country's most recent wind project, the 200MW farm in Gebal El Zeit was built under the BOO model and cost €340m. German development agency KfW

provided €192m financing while the EIB and European Commission contributed €50m and €30M respectively.

The growing commitment of international lenders such as the IFC and EBRD is helping attract much needed funds into the sector. Currently, the country is pushing through with its plans to develop a 1.8GW solar park in Benban. The EBRD and IFC committed \$1.6bn for 27 solar projects throughout the country, having reached financial closure for a 400MW project to be developed by Norway's ScatecSolar.

Egypt's Solar Projects with EBRD and IFC Funding

Project	MW	\$M Cost	
		Total	EBRD/IFC
EBRD-Led: Scatec Benban 1-6	400	450	243
Acwa Benban Solar PV 1-3	120	188	71
Infinity/IB Vogt Solar PV 1&2	80	116	43.4
Access/EREN Benban PV 1&2	100	155	58
Alfa Solar Benban PV	50	74	29
Elsewedy Benban PV	50	72	27
EDF EN Benban PV	50	72	27
EBRD Total	850	1,126	498.4
IFC-Led: ARC	50	75-80	60-65
Phoenix Power	50	75-80	60-65
Taqa Arabia Solar	50	75-80	60-65
SP Energy Egypt	50	76	57
Acciona Benban 1	50	70-75	63-65
Acciona Benban 2	50	70-75	63-65
Acciona Benban 3	50	70-75	63-65
Alcazar Solar	50	70-75	57.3
Delta Solar	50	70-75	56-57
Arinna	20-30	48	38.4
Winnergy	23-30	48	38.4
IFC Total	500	767	627
Total	1,350	1,893	1,125

Sources: MEEES

European institutions dominate in Morocco

In Morocco, the government's target of 2GW of solar and 2GW of wind power by 2020 is on track, with wind capacity already at over 800MW. The country has made further impressive developments in its wind sector: five wind projects totaling 850MW have already been awarded, with record bids ranging from \$25-30/MWh. As for solar, phase 1 of the Noor Concentrated Solar Power (CSP) project was commissioned in 2016, while Noor-2 and Noor-3 are expected to add a combined 350MW in 2018, which upon completion will become the largest CSP project in the world. The country is also planning a hybrid solar project at Midelt in Central Morocco which will combine PV and CSP. The 1GW project will be built in two phases under the IPP model with a long-term power purchase agreement.

Regional development institutions are playing a critical role in financing major renewable projects in Morocco. The multi-billion

dollar CSP project is financed by international development agencies including the EIB, African Development Bank (AFDB), and KfW. Additionally, the 850MW of wind projects currently under construction are being financed by the EIB and KfW, who are leading international institutions in providing debt financing in the country.

MDBs will maintain a strong role

MDBs and development agencies are expected to maintain their important role in the deployment of renewable energy in the region. Transportation and power generation have been a major focus over the past years and are expected to remain a pivotal part of their portfolios. With the international community pressing ahead with measures to fight climate change, MDBs will have an important role to play in support of these efforts and have recently announced that they will end financing oil and gas projects. As a result, the majority of energy investments are expected to focus on power generation and renewable energy in

particular. However, they will likely face growing competition from commercial banks which are increasingly familiar with the region's renewable market and business environment. While commercial banks were reluctant to enter this sector only a few years ago, many are willing to join now and will provide tough competition to MDBs and development agencies.

One of the main advantages of MDBs is their willingness and ability to provide support on regulatory and governance challenges, making them an ideal partner for some countries that need capacity building and technical support. The ability of MDBs to attract investors will be another reason governments in the region are keen to keep them involved.

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