

Financing Cogeneration and Small Hydro Projects in the Sugar and Tea Industry in East and Southern Africa

Geography	Ethiopia, Mozambique, Tanzania, Uganda and Zambia
Duration	2006-2007
Budget	€265,867 including co-funding from UNEP/DGEF
Implementation Agency	AFREPREN/FWD

Purpose

To analyse, understand and build capacity for addressing the challenges associated with lending to the tea and sugar industry for sustainable energy investments, and enhance networking among financial institutions interested in financing these sectors.

Project Description

This initiative will address the financing barriers and risks facing the sugar and tea industries in target countries, in investing in renewable energy and energy efficiency services (REEES). It links with two ongoing UNEP/GEF projects, on Greening the Tea Industry in East Africa (small hydro), and Cogen for Africa (bagasse cogeneration). REEES investments face a number of important risks and uncertainties notably: policy and regulatory risk, market risks (e.g., absence of assured buyers of generated clean energy), lack of investor confidence, and financial risks. Of special importance is limited appreciation of risks associated with project finance – a mode of financing that is not well understood or widely practiced in the region. Risks associated with project-financed REEES investments can be mitigated through comprehensive insurance to cover all possible eventualities. These include: Contractor's Risk, Erection Risk, Transportation Risk, Professional Liability, Third-party Liability, Workmen's Compensation, Contractors' Equipment, and even Advance Loss of Profit. These and other risks are not well understood especially in the context of financing REEES investments in the sugar and tea industries.



Main Activities

- Consulting sugar and tea industry representatives on financing barriers to energy development
- Assessing the challenges facing domestic and regional financial institutions in financing energy projects in the tea and sugar industry
- Assessing the risk associated with financing energy projects in the tea and sugar industry
- Reviewing the constraints to development of mechanisms for reducing financing risks
- Developing mechanisms for overcoming financial barriers facing the sugar and tea sector in developing REEES units
- Training financial institution, and sugar and tea industry representatives, on financing REEES projects in the tea and sugar sectors, and on risk assessment and mitigation measures
- Enhancing networking and dialogue between domestic, regional and international financial institutions and investors

Challenges

- Currently, there is limited participation of domestic and regional financiers in funding REEES in agro-industries
- Inadequate understanding of the risks associated with lending to agro-industries for REEES development
- Limited networking among domestic and regional financial institutions on the one hand and project proponents from agro-industries on the other

Expected Benefits

- Increased capacity of financial institutions in understanding the risks of financing REEES in agro-industries, mitigating risks and undertaking REEES investments in the cogen and tea industries
- Training workshops on financing for energy projects in the tea and sugar industry, risk assessment and mitigation for financial institutions
- A set of financial and risk mitigation instruments accessible to the region's financial community, and sugar and tea industries that will facilitate REEES investments
- A network of domestic, regional and international financial institutions and investors interested in financing REEES in target countries
- A website with information on the cogen and small hydro financing opportunities
- Reports and short articles on financial barriers facing the tea and sugar industries and options for overcoming barriers

Status & Progress

The project is in the early stages of implementation and the compilation of background material is ongoing.

