ERC to undertake study on local currency tariffs for power purchase agreements

For immediate release

The Energy Regulatory Authority (ERC) will undertake a study to help address existing constraints in the supply of local financing to infrastructure projects in the energy sector.

The 3 months' study is funded by the technical assistance facility of the Private Infrastructure Development Group (PIDG) to the tune of Kshs 20 million. The project will be implemented by GuarantCo, which is part of the PIDG. GuarantCo was established to support the development of local financial markets in low income countries.

ERC's Acting Director General Pavel Robert Oimeke said the study was in line with the commissions objective is to ensure adequate, quality, cost effective and affordable supply of energy through indigenous resources.

"One of the key challenges facing the energy sector is lack of appropriate and affordable financing option and attractive incentives to mobilize investments in energy infrastructure. This study will help unlock the potential of the sector while reducing cost for the end consumer," said Mr. Oimeke.

Historically, power generation in Kenya has been a dollarized business supported by development agencies and international lenders with dollar balance sheets, although the success of the South African renewables initiative shows that financing can be sourced from the local market.

GuarantCo's Executive Director, Samuel Chasia said local currency financing involves productive recycling of savings within a country rather than increasing the country's external debt burden. Mr. Chasia further said the infrastructure funding gap is large and its growing in Kenya alone where it is estimated to be in the range of Kshs 300- 400 billion (USD3-4 billion).

"The private sector needs to participate and this participation needs to be in local currency. Infrastructure project revenues are typically in local currency and it is only logical to finance in the currency of project revenues as this reduces foreign exchange risk which can be very punitive as we saw last year," said Mr. Chasia.

Mr. Chasia said a movement from Kshs 90/USD to Kshs 105/USD translates to a 15% jump in repayments which is often passed on to the consumers.

"Any reduction in the consumer tariff will translate into more affordable power and deliver a sustainable advantage to consumers including businesses and industries in Kenya, particularly in the manufacturing sector, creating more employment and contributing to the growth of the economy," said Mr. Chasia.

According to GurantCo, at a conceptual level, obtaining local currency funding would reduce the impact of the Foreign Exchange Fluctuation Adjustment, ("FERFA"), although the impact of different interest and inflation rates would also need to be taken into account in the final generation tariff and reflected in the consumer tariff.

GuarantCo notes that the local bank and debt capital markets have expanded and deepened greatly since the first independent power projects were financed.

"The pension fund management industry in Kenya alone controls over Ksh 800 billion of assets under management. These funds that they collect need to be invested in a manner that allows pay out over several years. Infrastructure assets are a natural home therefore for these funds," said Mr. Chasia.

NOTES TO EDITORS:

About GuarantCo

GuarantCo is a company of the multilateral Private Infrastructure Development Group (PIDG), providing local currency guarantees to regional banks and bond investors, to help infrastructure projects raise debt finance. Founded in 2005, GuarantCo has to date provided 41 guarantees to a total value of around USD 700m. Those guarantees have supported water, road and rural electrification projects in east Africa improving access to critical infrastructure for the local population.

Although GuarantCo can provide dollar-denominated guarantees in fragile and conflict-affected states its secondary mission is to 'de-dollarise' infrastructure projects to help local capital markets develop. GuarantCo is one-of-a-kind – the only local currency guarantee facility in the world targeting infrastructure in frontier markets.

GuarantCo is funded by the UK (DFID), Switzerland (SECO), Sweden (Sida), the Netherlands (DGIS through FMO) and Australia (DFAT). See GuarantCo's chapter in PIDG's 2016 Annual Report to learn more about its cumulative development results.

About PIDG
The Private Infrastructure Development Group (PIDG) encourages and mobilises private investment in infrastructure in the frontier markets of sub-Saharan Africa, south and south-east Asia, to help promote economic development and combat poverty. Since 2002, PIDG has mobilised $31.4bn from private sector investors and DFIs, supported 154 infrastructure projects to financial close and provided 222 million people with access to new or improved infrastructure. PIDG is funded by donors from seven countries (UK, Switzerland, Australia, Norway, Sweden, Netherlands, Germany) and the World Bank Group.

PIDG's companies, including GuarantCo, support private investment at every stage of the infrastructure project development cycle.

Early stage development PIDG companies InfraCo Africa and InfraCo Asia offer support 'upstream', helping bring bankable projects to market 'downstream'.
Debt, guarantees, equity and mezzanine PIDG's other companies, GuarantCo amongst them, work further downstream, offering support when project development is further advanced, coming in with funds ahead of and to help secure financial close, staying in through the construction phase and, when necessary, as commercial operations begin.
All Facilities recycle returned grants, loan repayments and sales proceeds into new projects, meaning that a proportion of PIDG's public capital is reused many times.

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