CASE STUDY 20: EGYPT – NREA WIND FARMS FINANCING

Barriers	Lack of capital investment
Instrument	Two step financing
Application	Short term one year soft loan to initiate project, payable through a second long term loan
Amount	n/a

PROJECT BACKGROUND AND OBJECTIVES

Egypt has some of the best wind resources in the world at the Gulf of Suez. To tap this resource, the Government has set a target that by 2020, 20% of electricity should come from renewable sources, such as wind. The New and Renewable Energy Authority (NREA) has undertaken wind farm development efforts and promoted private investments in renewable energy generation.

Investment in wind farms required the removal of energy pricing and capital market barriers. The capital market in Egypt does not provide suitable product for wind farm development. Typically, a private investor would be offered an interest rate of 13% with loan maturity of only 8 years. In addition, a 30% equity is required for the loan. The bond market is almost non-existent in Egypt.

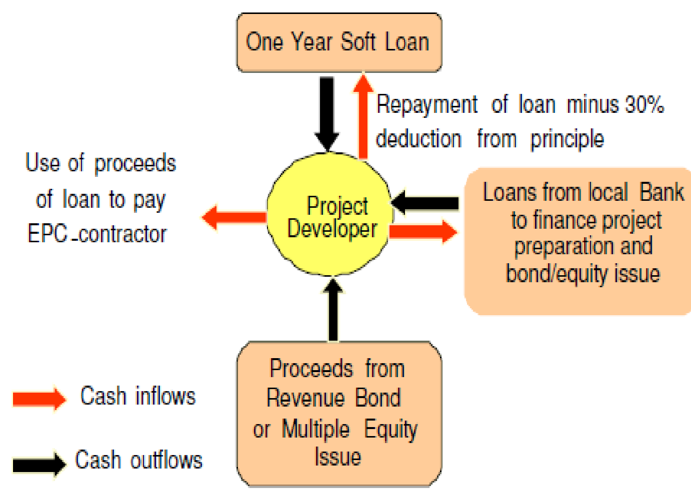
INSTRUMENTS USED

To overcome this issue, soft loan from donors are used as subsidy support. Donors provide a soft loan for a one year period, which will be paid upon commissioning of the wind farm by long term finance raised on the national capital market. The soft loan provides a form of subsidy on the project preparation and development stage.

To further reduce the cost of capital and increase the maturity of debt, long term revenue bonds can be issued, backed by the revenue stream of the wind farm and sold on the open market to small scale and institutional investors.

INSTITUTIONAL ARRANGEMENTS

The loans from donors are paid to the national development bank, who will on lend to NREA, who acts as the project developer in this case.



OUTCOMES

Financial costs to develop a wind farm project are lowered, making the projects more attractive to private firms.