

Scaling Domestic Institutional Investment in Distributed Renewable Energy (DRE) Sector in Nigeria - Catalyzing Market Creation and Efficiency Innovation

An interactive roundtable session between World Bank, Cambridge Economic Policy Associates, InfraCredit and Private Domestic Institutional Investors to discuss strategies to scale long-term local currency finance in Nigeria's Distributed Renewable Energy Sector.



Background

In 2020/2021 the World Bank, in partnership with InfraCredit, engaged professional consulting services towards developing an operational model for a Project Development and Construction Facility (PDCF or the "Facility") that will identify a pipeline of bankable infrastructure investment opportunities and designing an institutional arrangement for local-currency denominated debt investment by institutional investors, as well as be responsible for helping the pipeline of projects be ready to go through the various (standardized) stages of due diligence leveraging on the early experience gathered by InfraCredit. In 2023, the World Bank, and InfraCredit undertook a market re-engagement to build on the work earlier done on the Facility in preparation for the World Bank Nigeria Distributed Access through Renewable Energy Scale-up (DARES) Project.

As at 2021, over 85 million people in Nigeria lack access to electricity, leading to heavy reliance on expensive and polluting fossil-fueled generators. Achieving universal energy access in Nigeria will require a minimum investment of \$20 billion, with contributions from the public and private sectors as well as end-users.

To further scale the participation of domestic institutional investors in the proposed DARES which will give distributed renewable energy project developers access to long-term finance whilst increasing energy access in Nigeria and consequently improving the economy, InfraCredit organized an Investor Roundtable between World Bank, Cambridge Economic Policy Associates (“CEPA”) and private institutional investors.

Strategic Objective

The expected outcome of the session is to identify bottlenecks hindering mobilization of additional financing to the DRE sector and motivate institutional investors towards unlocking financing for more climate-aligned distributed renewable energy projects in Nigeria.

The discussions reflected a range of factors that influence domestic institutional investor’s decisions in DRE infrastructure investment, the opportunities and challenges in the DRE sector, delineation of ESG/Climate aligned investment targets, appetite for blended DRE transactions, investment appetite and pricing considerations, constraints to scaling DRE investments, amongst other areas.

Participants

The session had 22 participants across 12 Private Institutional Investor Firms and 6 Development Finance Institutions.

INSTITUTIONAL INVESTORS					
					
					

DEVELOPMENT PARTNERS				
				

Summary of Feedbacks from Pension Funds

Credit enhancement as an enabler to facilitating investment in DRE sector

Given the challenges with the Nigeria's energy sector, credit enhancement is critical in enabling investment to the DRE sector

Proactive Investor Engagement

Early investor engagement including presentations, site visits, co-due diligence sessions

Scale relative to PFA AUM

Value the diversification provided by the asset class however limitations exist for renewable energy projects due to their smaller scale, constraining exposure. As the pension fund industry grows, there's a need for larger-ticket transactions.

Capacity Building for the Industry

Need for capacity building on the technical aspects of the asset class to increase appetite including understanding how developers generate revenue

ESG and Impact Considerations in Investment Decision (Profit, People and Planet)

Industry needs transactions with ESG considerations. Sustainability is key

Pricing and Secondary Market Trading

Establish a secondary market as most of these bonds are not liquid.

Additional incentives to concessionary pricing including tax breaks to investors

Investment considerations

A clear path to cash flows, confidence in shareholders, the credibility of promoters, a track record of success, secured off-takers, appropriate leverage levels, favourable ratings, and sound governance structures

Availability of information on the valuation of infrastructure projects and assets

Structuring considerations

Project can be structured through a debt fund as the bond process might not be appropriate given the size of these DRE projects

Localization of Supply Chain

solar energy remains relatively costly due to the absence of local alternatives for its components. inquiries regarding the World Bank's strategy to promote substitution and enhance affordability by targeting areas where components can be assembled locally to reduce import dependency. Additionally, questions were raised about the World Bank's plans to fund this aspect of the value chain



INVESTOR'S
**ROUND TABLE
DISCUSSION**