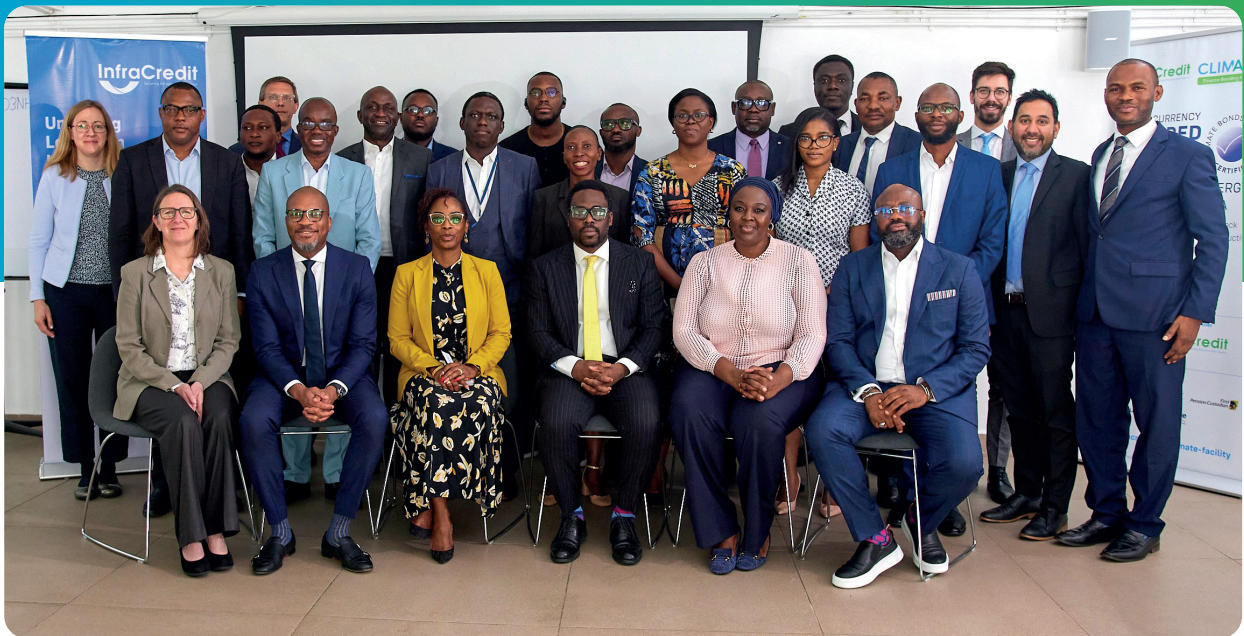


Scaling Long-Term Local Currency Finance in Nigeria's Distributed Renewable Energy (DRE) Sector

An interactive session with Foreign Commonwealth & Development Office and British International Investment for Domestic Institutional Investors to unlock institutional investment in the DRE Sector



Background

The Foreign Commonwealth Development Office, anchor funder in the Climate Finance Blending Facility (CFBF or the "Facility") and British International Investment (BII), a potential investor in the Facility, were on mission in Lagos as a part of ongoing discussions to expand the Facility in response to the surging demand for Distributed Renewable Energy (DRE) solutions. In recognition of the critical role played by Pension Fund Administrators, in mobilizing long-term funding to projects, the development partners were desirous of interacting with our domestic institutional investors and Pension Funds Operators Association of Nigeria (PENOP) to gain a deeper understanding of the investment appetite for DRE projects, perspectives on market opportunities and barriers to funding as well as expectations and potential areas of collaboration with the CFBF.

In line with our Infrastructure Knowledge Exchange Programme for the pension industry and to further scale the participation of domestic institutional investors in DRE projects (as co-financing partners along with FCDO and BII), which will give DRE project developers access to long-term finance whilst increasing energy access, InfraCredit along with FCDO and BII organized an Investor Roundtable in March 2024. The session focused on discussions around mobilizing local currency financing from domestic institutional investors, with a particular focus on Pension Funds to finance solar DRE projects in Nigeria, using blended finance approaches for risk mitigation including case studies and project pipeline.

Strategic Objective

The interactive Roundtable session with the domestic institutional investors was aimed at unlocking institutional investment in Nigeria’s DRE sector. The goal was to deepen the understanding of what institutional investors require to drive their participation in DRE project funding, the lessons learnt so far and further interventions needed to drive a more inclusive cleaner energy access, taking into consideration, Nigeria’s National Contributions towards achieving net zero by 2060.

The discussions aimed at curating a conclusive feedback from the investors, that would help InfaCredit’s partners in their decision making and strategy to address the challenges faced with local currency financing for the DRE sector.

Participants

The session had 25 participants across 10 Pension Fund Administrators and 3 Development Finance Institutions and Fund Managers.

INSTITUTIONAL INVESTORS



DEVELOPMENT PARTNERS



Summary of Feedbacks from Investors

Viability of the Projects on a standalone basis

Require that the economics of the underlying project should be viable without derisking provided by the Facility and guarantees. Investment Committee want comfort on the project performance without guarantees

PFAs value InfraCredit guarantees because without the guarantees, these projects would not be considered

Scale

Concern about the small size of the DRE transactions which is a disincentive to committing capital to these projects. Given the size of the AUM of pension funds, deal size of a DRE project is a key consideration for their participation.

Project Structures

Want simplified transaction structures as most decision makers do not understand structures of alternative asset classes

Capacity Building for Board Members

Need to educate pension boards to understand the viability of the deal structures, opportunities and impacts of the DRE asset class.

Organize board retreat for pension fund boards with the presence of BII and FCDO so pension fund boards can see how these models are working in other markets.

Risk and Return Objective

pension funds are willing to invest if the projects meet their return and risk objectives relative to the FGN benchmark. Structure products that meet PFAs risk appetite and returns benchmarks

Pricing and Exit

Want competitive pricing and Product should embed an exit structure within a defined timeframe

Regulations

Current regulations allow for investment in the asset class. However, would want regulation to permit club transactions where the transactions are structured to be underwritten by two or three large PFAs

Key Man Risk

Most of the DRE projects are owner-managed which creates key-man risk and governance issues



INVESTOR'S
**ROUND TABLE
DISCUSSION**