Subsidy for private sector MHP
Case study in Rwanda

Marcel Raats

Energising Development

SenterNovem

Private Sector Participation in Rwanda PSP-Hydro

Aim

- To develop private entrepreneurship for building and operating micro-hydro power plants

- Call for proposals from private sector in 2005, 2007
  - EnDev provides 50 % investment subsidy (not on running costs), technical assistance, business support, etc
  - Entrepreneurs responsible for financial closure (equity of app15% and loans), construction, permits, etc
  - Basic condition: new access is provided to rural households, social infrastructure, productive use
  - But, interconnection to grid or larger productive use customer (tea factory) to increase viability
  - Valuable support of MinInfra (permits, PPA, pricing)

Tedious process

	submitted	Contract negotiations	Contracted	Commissioning expected (2009)
1 call for proposals (2005)	15	6	4	2
2nd call for proposals (2007)	5	2	1	1
total	20	8	5	3
Succes rate	15% (3/20)	38% (3/8)	60% (3/5)	

Consortia of local business men, NGOâs, social institutions (hospital), local and foreign investors

PSP Hydro projects

PD	Location	Capacity kW	Grid interconnection	Larger customers
Repro	Murunda	105 kW	Yes	No
Sogemr	Musarara	400 kW	Yes	Hospital
Enny	Nyaruguru	150 kW	No	Tea factory

SenterNovem

Main challenges

- Lack of own funds and collateral
  - Additional partners and personal collateral proved a solution (in some cases)
- Unwillingness of banks to finance projects (mainly due to lack of experience with such type of projects)
  - Very high collateralization
- Lack of expertise (technical and managerial)
  - In house training and regional experts as needed
- (Civil) engineering design errors
  - Intervention/support from national utility Electrogaz
- Financial fraud
  - Receipt checks , financial and technical audits
- Little experience with regulatory frameworks for small IPPs (permits, PPAs, pricing)
  - Ad hoc contracts and networks

SenterNovem

Further observations

- Grid interconnection and/or a large consumer (tea factory, hospital) is very welcome to increase project revenues and to make private financing successful
  - risc: preference for grid interconnection conflicts with original target of providing access to households.
  - How to develop a successful mix?
- Proper management and accounting systems are crucial
  - New businesses
- All 3 successful projects propose new schemes provided financing (subsidies, loans) can be arranged. Next to that a EoI early 2009 provided 7 serious additional candidates

Looking for a new financing model

Goal:

- To increase private sector share, reduce subsidies
- To strengthen business support

Plan:

- Involve venture capitalist partners (VCP)
  - Equity (long term involvement)
  - Debt
  - Extensive business support (professionalize management and operations)
- EnDev provides technical support and lower (app 15%) subsidy (15 PD/15 EnDev/15 VCP/55 debt)

Looking for a new financing model

Challenges:

- Satisfying the high return demands of VCP (20-30%, ex royalty fees), because of foreign currency risks
- Shorter investment horizon (5-7 years), whereas break even hydro's 8+ years
- 15% subsidy probably too low to meet VCP demands. (30% probably better.)