DFIs keen for Egyptian solar despite uncertainty

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Uncertainty over Egypt's 2,000MW solar feed-in tariff (FIT) scheme means a number of projects may not happen but financiers still appear keen to take part in a planned follow-up to the first round.

The problems for the 2,000MW round one procurement centre on where the project documents state potential arbitration would take place, *IJGlobal* exclusively revealed on 14 June. Development finance institutions (DFI) looking to finance the solar plants require the project documents specify any arbitration disputes would be held in a 'neutral' territory such as Geneva, Paris or London.

Although the documents previously stated Geneva, Egypt's Ministry of Finance is said to have since changed the location to Cairo. The DFIs argue they won't lend where the documents don't allow arbitration to happen outside of the territory receiving the investment, in a 'neutral' jurisdiction.

The International Finance Corporation (IFC) – which was looking to arrange the lion's share of more than $1 billion of debt for the solar projects – has entirely pulled out of the development.

"Some elements of the current round of the FIT programme are unfortunately not in line with our requirements, as well as with what we have seen from other programmes launched around the world," it said in an emailed statement.

"In order not to postpone the programme further, we have agreed with the government that we will not participate in the current projects. We stand by the government in creating opportunities for the private sector to contribute to this promising sector in Egypt and, therefore, we expect to invest in this sector in the next fiscal year."

IFC's statement indicates it may be looking to fund the country's anticipated second round of the solar FIT – which *IJGlobal* recently revealed is under development by Egypt's Electricity Transmission Company and set for announcement around October 2016 – after the 26 October deadline that projects under the first round must reach financial close by to be eligible for the tariff.

A second round of the tender will feature a lower risk profile for developers with the Egyptian government possibly taking on more currency convertibility risk, sources said. Most importantly it could also offer a reduced tariff rate to developers, which may be welcomed by Egypt's government.

Since the country first began tendering the 2,000MW solar scheme at a FIT price of $0.1434 per kWh, prices have dropped considerably – below $0.6 per kWh in a number of tenders in the region and as low as $0.0299 per kWh in the United Arab Emirates. Fotowatio Renewable Ventures' entered the lowest tariff bid ever seen globally for solar earlier this year for round three of Dubai's 800MW Rashid al Maktoum solar park.

Besides the IFC's contribution, at least a further $600 million in debt funding for the first round of Egypt's solar FIT is at risk of falling through. The European Bank for Reconstruction and Development (EBRD) has earmarked $500 million in funding for solar projects under the scheme and the European Investment Bank (EIB) is looking to finance 100MW of capacity with €73 million ($82 million) in debt, and a further 250MW of capacity with an undisclosed amount. The full 350MW has a combined total cost of around $873 million.

“The EIB is interested to work with the Egyptian authorities to make this FIT program a success, but will require an arbitration provision in line with customary international standards to allow its involvement,” a spokesperson commented.

An EBRD spokesperson would not confirm whether the bank will pull out of the scheme, but commented that they are “in constant discussions with sponsors, partners and the authorities in relation to various projects.”

Other DFI’s including the UK’s CDC Group, France’s Proparco and the Overseas Private Investment Corporation are also considering investing in the projects, sources said, but have not announced so publicly. A spokesperson for CDC acknowledged the issues around the scheme, stating:

“CDC is struggling to get involved in the programme as it currently stands but remains committed to working with our partners to build solar power plants in Egypt”.

“We expect to invest in this sector next fiscal year.”

Although it seems there will be difficulties in getting all of Egypt’s solar projects over the line, the country doesn’t look as though it will struggle for cheap energy in the coming years. Last year Italian energy firm Eni said it had discovered a large gas field off Egypt’s coast, thought to be the country’s biggest gas discovery and the largest ever found in the Mediterranean Sea. The Zohr field could contain around 16 trillion cubic feet of lean gas.

More recently, a joint venture of BP and Eni discovered a sizeable natural gas reservoir off the coast thought to contain some 70-80 billion cubic metres of gas. BP and Eni have equal interests in the Baltim South Development Lease.