The Challenges of Financing Power Projects in Developing Markets

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What is DFC?

• DFC is the development finance institution of the U.S. Government.

• Established via the *Build Act* of 2018, it is the successor entity to OPIC, the Overseas Private Investment Corporation.

• Our mission is to mobilize private capital for investments in developing nations, with a focus on lower-income countries.

• We offer debt, equity, political risk insurance, and technical assistance.
Power Project Financing Challenges in Developing Nations

- Development finance institutions such as DFC are lenders of last resort in the markets in which they work.

- “It is the deep-seated differences in the institutional quality of states that determine the persistence of inequality among individuals across the globe.”

- The quality of data concerning the energy sector, demand, supply, pricing, and fuels in these markets is often unreliable and of poor quality.

- Costs of debt and equity capital can be difficult to ascertain because of the lack of depth and available data concerning financial instruments.
Power Project Financing Challenges in Developing Nations

- Power and other infrastructure project financings in developing economies are often difficult to close. Successful projects require at minimum:

  - **Bankable documents**: e.g., a power purchase agreement ("PPA") with a creditworthy counterparty, an economic tariff, and a government support document (sovereign guarantee or letter of support.)

  - **Clear land ownership title and leasehold rights.** A wind project, for example, can comprise separate leases for ~ 100 parcels of land.

  - A lack of environmental and social policy problems (e.g., endangered species, human resettlement.)

  - Consistent, united community support.

  - An experienced power project developer having uninterrupted focus.

  - A cooperative, supportive, consistent government (e.g., power purchaser, transmission and distribution company, tax policies, local authorities, etc...)

  - An absence of events of force majeure.