FMO Privium
IMPACT FUND

Invest with Impact

Increasing access to stable affordable renewable energy

El Salvador

is the smallest country in Central America and one of the most densely populated of the region with 6.4 million inhabitants. In the twentieth century the "Land of Volcanoes" suffered severe political turmoil and socioeconomic inequality that eventually led to the Salvadoran Civil War. Post-war progress did bring about economic reforms and increased access to international finance, although it was at times slowed down by drops in economic growth, natural disasters, and peaks in crime.

While its earlier rates of socioeconomic inequality have substantially declined—making it one of the most equal countries in Latin America and the Caribbean—economic growth averages at about 2.3% a year. COVID-19 however does play a role in limiting both poverty reduction and economic progress. El Salvador is the second most affected country by the pandemic in Latin America after Nicaragua.

El Salvador's energy sector plays a key role in the country's economic development, with a total installed capacity of 1.54 GW and an electrification rate of 98%. The energy industry is diversified across fossil fuels and renewable energy (such as hydropower, solar, wind and geothermal energy). To foster interest in renewable energy and minimize fossil fuel use, the government passed a decree in 2007 granting various tax incentives to companies developing renewable energy projects.

The project

Located in the Usulután province of El Salvador, roughly 100 kilometres to the southeast of the capital San Salvador, Capella Solar is a solar photovoltaic (PV) facility comprised of 2 plants: Albireo 1 and Albireo 2.

Each plant has a capacity of 50MW and was developed by French renewable power producer Neoen. This makes Capella Solar not only the largest solar plant in El Salvador, but also the facility supplying some of the cheapest energy into the market (~USD 49.55/MWh), thanks to purchase agreements with local distributors.

In addition to the solar plants, a 3MW storage battery was included in this project, meeting the country's minimum requirement of 3% primary reserve storage which applies to all energy producers in the country intended to absorb the intermittencies in the grid. Additional battery capacity is underway.

The loan

The loan to finance the construction of Capella Solar's power plant and battery system was co-arranged by IDB Invest and FMO. In this role FMO also facilitated a co-investment by Proparco, the French development finance institution. Each lender contributed almost equally, where FMO provided a USD 28 mln loan in which the fund is participating.

A broader perspective

The Capella Solar plant was inaugurated at the end of 2020, and more recently, the focus has been on installing a second battery to the project.

Although El Salvador has an ample supply of energy resources (such as wind or solar), these resources are intermittently generated. As the need for constant energy increases, battery storage provides a more reliable and cost friendly solution compared to other energy storage methods in the market. This makes battery storages a lucrative and more sustainable alternative. As battery storages scale up, we are likely to see solar more PV plants supported by larger storage units.

Beyond the financial support provided, FMO has taken the lead in providing environmental and social (E&S) services through a follow-up action plan to guarantee Capella Solar's E&S management is compliant with FMO's standards. Meaningful development impact has always been a core tenet of FMO's work, and the investment in Capella Solar is another clear example of that. This project provides high impact in a lower middle-income country through the supply of affordable renewable energy. FMO's additionality (a requirement for development finance institutions) lies in the supply of long-term project financing which is often not available in the local market.

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The development of

Impact	
MW solar	100mw
Battery capacity	3mw
FMO investment	
FMO loan	USD 28 mln
Fund part	USD 4 mln

"Combining batteries and renewables improves access to reliable and affordable energy."

PRIVIUM FUND MANAGEMENT

The Fund Manager

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FMO Investment Management

The Investment Advisor

FMO Investment Management BV ('FMO IM') is a MiFID licensed Dutch investment firm and 100% subsidiary of the Dutch development bank FMO NV. FMO IM advises on the loan portfolio at the request of the Fund Manager. All loans offered to the fund have succesfully completed the investment process of FMO and have thus been added to FMO's own loan portfolio.

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