

CONCEPT NOTE

SEED Africa Symposium 2015

Stream III “Business + Policy” | September 10 | 14:15 – 16:00H | 105 Minutes

Break-out session hosted by “Practitioners’ Dialogue on Climate Investments”

“Shaping renewable energy markets in Africa – How international climate finance can support unlocking the potential of SMEs”

Focus: Off-grid and mini-grid markets in rural and peri-urban areas

Background

Renewable energy is at the core of **sustainable development** and climate change discussions, emerging increasingly as a central pillar in deliberations on the post-2015 development agenda as well as international climate finance. Nearly 60 per cent of the additional generation required to achieve universal electricity access needs to originate from off-grid solutions – both stand-alone and mini-grids.

The business case for deploying off-grid renewables in rural areas has never been stronger. **Renewable energy** technologies are **increasingly cost-competitive, often turning them into the first-best** economic option for off-grid electrification vis-à-vis diesel-fired generation or kerosene-based conventional lighting in most rural areas. Decentralized renewables present an immense opportunity to expand climate friendly, reliable and cost-effective electricity supply in rural and peri-urban areas.

Tapping into this **vast potential** will require collective efforts to create an enabling environment that supports the scale-up of renewable energy based off-grid and mini-grid supply through **private sector activities and entrepreneurial innovation**. With an enabling environment, renewable off-grid solutions can be rapidly deployed to extend electricity access to meet basic energy needs as well as those for productive use. Engagement of private actors in setting up businesses, securing financing and developing projects is indispensable for targeted policies and in fact mutually reinforcing.

With regard to **policies and regulations** for off grid solutions, governments have a critical role in implementing market-promoting measures, including dedicated policies, a clear and realistic long-term electrification strategy, targeted support for (M)SME and projects, rethinking subsidies for

fossil fuels, innovation and addressing administrative challenges the private sector faces. To facilitate the private sector's participation in mini-grid deployment, governments ought to employ conducive and cost-reflective tariff structures and provide support for developers in identifying villages not expected to be served by the national grid in the short to medium-term as well as a regulatory framework to support integration of mini in main grids.

The key barriers for profitable **business models** continues to be the relatively high capital-to-operational cost ratio for off-grid renewable energy systems compared to conventional systems – despite being cost competitive on a life-cycle basis. Overcoming this barrier requires access to end-user financing or business models that include a financing offer tailored to the end customer's economic situation. Co-operation between governments and mini-grid operators is imperative in identifying opportunities for cost and risk sharing and thus economically viable business models and determining options to substantially scale these systems up. To ensure sustainability, business models also need to mirror resources for conducting operations, maintenance and after-sales services of systems.

Relatedly, the access to appropriate financing as well as mitigation of investment risks continues to be a pressing issue as well. To improve access to finance, improvements ought to encompass both upstream (i.e. introducing financing instruments that are compatible with the scale of off-grid projects) as well as downstream (i.e. improving bankability of projects through approaches like aggregation). An ecosystem of energy financiers to deliver downstream financing is of crucial importance, including dedicated lines of affordable credit for energy enterprises, ideally delivered by rural and commercial banks. Public financing is of importance in leveraging commercial and private capital. Use of instruments such as publically backed guarantees help de-risk investments and encourage financiers to participate in the sector.

Guiding questions for the panel discussion:

- Which business models for renewable off-grid and mini-grid energy supply are economically viable in East Africa?
- Where do you see potential for (M)SMEs and entrepreneurs in developing a business around renewable energy?
- Which specific policy actions are required to support the sector?
- Which financing solutions exist to fill the financing gap or are most promising?
- Which are concrete measures to improve access to finance and facilitate innovative finance?
- How can the renewable off-grid sector become comfortable around risks? Which risk-mitigating instruments exist / are promising and should be deployed?
- How can international climate finance unlock the potential of (M)SMEs?

Guiding questions for the round table discussion:

- Which are the 2–3 most important policy interventions required to increase private investment and engagement of the private sector in promoting renewable energies?
- How do these interventions have to be structured to achieve the intended outcome?
- Which role for international climate finance (after COP / post-2015, etc.)?