PRACTITIONERS' DIALOGUE ON CLIMATE INVESTMENTS

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

During the break-out sessions hosted by the "Practitioners' Dialogue on Climate Investments" the attendees participated in **the panel discussion on the renewable energy transformation in Africa**. The panelists shared best practices and lessons learnt about design and implementation of enabling policies, innovative financing solutions and tailor-made renewable energy systems and business models. The panel was represented by the experts from the representatives of the private and public sectors as well as from financial institutions.

After the panel discussions the participants continued **consultations in the working groups**. There were seven round tables with 8-12 representatives from the public and the private sector identify. They aimed to identify solutions to address the key barriers to scaling up off-grid renewable energy by leveraging on their cross-sectoral experience.

Summary of the panel discussion

- In order to achieve universal energy access by 2030 (SGD 7), Africa needs up to $40-50 billion of annual investment into the sector. In reality, current and predicted public and private investment volumes combined fall short by 80% and have to be increased five times. The increase of private sector investments is required.

- Public finance should be used to leverage a maximum of private investments. The instruments should be commercial and indirect, such as, inter alia:

  - Concessional or commercial guarantees, tailored to specific requirements (off-taker/revenue risk, suitable for SMEs, etc.) and with long tenors,

  - Convertible project development grants or project development equity to supply risk capital, and sharing project development risk between public and private sectors.

- Business models, such as rural electrification projects have large potential to grow quickly and attract large scale finance if they are capable to reduce the payback period of investments to a minimum.

  One example is a francize model for a solar power system where local entrepreneurs use electricity for economic activities. The payback period for such model could be much shorter compared to a system which is used by a household. The capital can be much quicker invested into a new system, generating a larger impact. Therefore, entrepreneurial competences should be strengthened to be able to run such business models successfully.

- An example from Kenia shows that the policy interventions can unlock the potential of the private sector. This can be done through liberalization of the on- and off-grid energy market and cooperation with the public sector. But also by using instruments such as feed-in-tariffs and renewable energy auctions or by creating specialized entities such as a rural electrification authority.

- Existing climate finance mechanisms and instruments - CDM and carbon credits can be of interest for SMEs in the renewable energy sector. However, in order to use the full potential of these options these instruments should be easily accessible and tailored toward financial needs of SMEs. It is, therefore, necessary to share that best practices and experience in using them.

- More transparency on return expectations and financial product design is required in order to eliminate information asymmetries between investors and investees and to facilitate the development of financial market for investments in renewable energy.

- In order to provide adequate support to SMEs and other business models in the renewable energy markets, the climate finance should include a broad range of financial products and be as flexible as possible to support the linkages between investors and SMEs.

- Local commercial banks play a crucial role in channeling the large investment of international lenders and investors to SMEs. The capacity and expertise of these banks should be strengthened in order to be able to scrutinizes SMEs' renewable energy projects and reassess their risk-perception.

- Stability and predictability with regard to the regulatory framework conditions are crucial in supporting the development of renewable energy markets. For example, repeated raises and abates of taxes should be avoided. The price should be, certainty, increased. Standardization of processes and contracts, such as the Power Purchase Agreement (Standard-PPA) would further increase the interest of the private sectors in renewable energy markets.

- If regulations and legal administrative requirements related to the development of renewable energy business are streamlined, made transparent and administered by a public one-stop-shop, SMEs will be further encouraged in tapping into renewable energy markets.

- Building capacity of local technicians, raising awareness on low-carbon energy options and strengthening knowledge on the renewable energy industry can have a significant impact on the risk perception of investors regarding the operation of a renewable energy plant.

- The interest of equity investors in the renewable energy market is growing. Therefore, climate finance should be used to support a stable business environment and join forces with the private sector to develop and roll out tailored financial products.

Results of the discussions at the round tables

Guiding questions

- 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 could be **the role for international clime finance** (after COP/post-2015, etc.)?

Policy framework

The participants highlighted that the following policy interventions could facilitate private investments and engagement of the private sector into the renewable energy markets:

- Liberal energy markets that allow power/heat generation to be owned by the private sector,
- Increased cooperation between public entities (government), the private sector and academia,
- Harmonization of policies and activities with other line ministries, e.g. Ministry of Health, etc.,
- Harmonization of policy frameworks across regions,
- Development of adequate and conducive Public Private Partnership (PPP) frameworks for local solar segments that encourage investments,
- Development specific policies that support off-grid energy sector,
- Ensure transparency of legal and administrative requirements along the project development process,
- Bundle legal and administrative procedures in one entity.

Financial support instruments

The participants identified the following instruments that could leverage private sector investments in the renewable energy sector:

- Public finance shall be used as indirect as possible to leverage private finance,
- Required financial products include:
  - Concessional and patient credit lines
  - De-risking instruments, e.g. off-taker risk insurance
  - Investment in renewable energy SMEs,
- Revenue based financial support for generated power (KWh) e.g. FIT - stable, smart and transparent policy framework and tariff setting,
- Subsidies for end user of Solar Home Systems based on installed KWp,
- Reduction or removal of duties on the components of solar energy systems, for example, solar panels, batteries, etc.,
- Tax-exemption incentives for private sector players in the renewable energy business (e.g. reduction on VAT, tax holidays, reduced levies) to facilitate the market development and incentivize local production and assembling of technologies, components and systems,
- Use local commercial banks for special renewable energy related financial products (standardized and quick processing) to support access to adequate renewable energy finance.

Market standards and instruments

The discussion revealed the following recommendations on how to shape the renewable energy to better involve SMEs in the sector:

- Introduction of standards and respective enforcement structures:
  - Introduction of the country-wide technology standards, improvement of the procedures for quality control of imported components and systems,
  - Standardization of technical expertise of solar technicians,
  - Standardization of training offers and accreditation,
- Introduction of a certification scheme for traders and installers of solar energy products to ensure quality of installation,
- Harmonized customs regulations for renewable energy systems and their individual components.

The following market instruments have been suggested by the participants:

- Demand-creating instruments:
  - Introduction of public awareness campaigns on renewable energy technologies
  - Performance of demonstration and pilot projects
- Supply-improving instruments:
  - Technology transfer to local private sector players
  - Provision of technical support to local companies
- Market transparency:
  - Ensure reliable and clear communication from government agencies about tariffs and duties,
  - Create forums for exchange between sector stakeholder: e.g. on PPP frameworks.

Capacity building

- The participants identified the following capacity building needs:
  - At the micro-level: technicians, project owners, investors and banks, government representatives,
  - At the meso-level: institutions.
- Incorporating renewable energy subject into existing training curriculum at all levels.