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AEEP Energy Talks

Spotlight

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Leveraging Private Sector Investment to Speed Up Renewable Energy Deployment in Africa

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Ministry of Electricity and Renewable Energy

AEEP Energy Talks Spotlight

Leveraging Private Sector Investment to Speed Up Renewable Energy Deployment in Africa

Key findings from the AEEP Energy Talks on 30 June 2021

SUMMARY

Harnessing the rich renewable energy sources available in Africa is pivotal for ensuring a structural shift towards resilient and sustainable low-carbon economies. Africa's transition to green growth is underway. Findings in the IEA's World Energy Outlook 2020 show that installed renewable generation capacity in Africa has increased 77% between 2010 and 2019. Nevertheless, Africa still has vast untapped, solar, wind, hydropower, geothermal and biomass potential.[1]

Unlocking Africa's energy potential requires a range of inputs. Most importantly, immense mobilisation of international and domestic capital. According to the IEA, approximately USD 100 billion will be required yearly to meet electricity demand on the African continent between 2020-2040. Public finance into renewable energy projects in Africa is expected to stay relatively low, around 15 per cent. Therefore, European and African private capital must be engaged. Investments must focus on generation, transmission and distribution capacity in order to reach an optimal use of the available abundant resources.

This AEEP Energy Talks Spotlight summarises the expert discussion held on 30 June 2021 and highlights key lessons for increasing private sector engagement. Representatives from policy, industry and finance explored how the private sector can best partner with the public sector to implement clean, affordable energy solutions across Africa.

[1] https://www.iea.org/reports/world-energy-outlook-2020

Introduction

Access to sustainable energy underpins the development of key social infrastructures and services in Africa. Advancing energy access on a large scale can, in addition, boost the economic development and the industrialisation of the continent)[2]in line with the 2030 Sustainable Development Goal number 7.

The fifth AEEP Energy Talks on 30 June 2021, 14.00 – 15.45 (CEST), brought together African and European experts to debate the most effective ways to mobilise private sector investments for a faster renewable energy deployment in Africa.

Moderated by BBC journalist **Mr Bonney Tunya,** the discussion was opened by remarks from **Mr Moses Bayingana**, Senior Policy Officer for ICT, African Union Commission (AUC), and **Mr Georgios Grapsas**, Team Leader for Sustainable Energy DG INTPA, European Commission (EC).

After opening remarks, keynote speeches were delivered by **Mr Callixte Kambanda**, Manager Energy, Policy, Regulation and Statistics at the African Development Bank (AfDB), GET.invest's technical advisor, **Ms Ilham Talab**, and **Mr Roberto Vigotti**, General Secretary, RES4Africa Foundation.

A panel discussion followed, with additional insights from **Ms Louise Paulsen**, MD, Vestas South Africa, **Ms Liesbet Mijlemans**, Senior Investment Officer, ElectriFI and **Mr Antonio Passero**, Sub Saharan Program Manager, RES4Africa Foundation.

Opening Remarks

Mr Moses Bayingana, Senior Policy Officer for ICT, AUC, commenced the AEEP Energy Talks by welcoming the inclusion of the private sector into the African-European energy dialogue and said that the AUC regards the private sector as an essential support to the African Union member states. Current yearly spending on renewable energy development in Africa is about USD 6 billion, leaving a gap to be filled by both public and private finance, domestically and internationally. Mr Bayingana noted that adequate policy, regulatory and institutional frameworks are needed to create a conducive environment for businesses. Particularly policies including tax incentives, Feed-in-Tariffs (FiTs) and Power Purchase Agreements (PPAs) can, according to Mr Bayingana, align public sector goals with private sector ambitions. Additional measures should include strengthening the capital and financial markets of African countries and building capacity in both the public and private sector. In doing this, Africa can deploy the experiences of Europe to ensure efficient private sector participation in the energy sector.

Mr Georgios Grapsas, Team Leader for Sustainable Energy, DG INTPA European Commission (EC), underlined the EU's ongoing efforts to make the cooperation with Africa on realising sustainable energy access for all as effective and meaningful as possible. He noted that private sector funding comes with expectations of payment from the public sector and end-users, and that this is important to keep in mind when discussing, in particular, the energy sector in order to make tools and instruments effective. Mr Grapsas summarised that the EU has provided over 3 billion Euros in grants in Africa during the past seven years, and leverage by the private sector, which demonstrates the significance of EU's contributions. In closing, Mr Grapsas said that digital solutions must be seen as opportunities, and that together with good governance, this will provide an avenue for attracting the private sector in an effective and transparent way.

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[2] Ibid.

Summary of Keynote Speeches

Mr Callixte Kambanda, Manager Energy, Policy, Regulation and Statistics at the AfDB, spoke about **the key role of the private sector in securing Africa´s sustainable energy future.** He underlined the importance of creating appropriate regulatory frameworks that give private sector investors a comfortable operating environment. Accordingly, the AfDB is supporting African countries and Regional Economic Communities (RECs) to establish robust, transparent, and harmonised regulatory and policy regimes. As an example, the bank's flagship report, the Electricity Regulatory Index for Africa (ERI), has mainstreamed electricity regulatory issues into a broader power sector discourse. It provides a framework for a coordinated approach by development partners to support countries in addressing empirically determined regulatory bottlenecks. Furthermore, Mr Kambanda highlighted that the bank's support in terms of renewable energy investments as a percentage of total generation investments (in USD) has increased significantly from 9% during 2001-2010 to about 70% during 2011-2019.

Some remaining challenges, according to Mr Kambanda, are the intermittent character of wind and solar technologies and the fact that cost of storage technologies is not yet equally competitive and affordable. In line with Mr Grapsas, he proposed to focus on digital technologies that have become a crucial part of the power sector value chain. The AfDB believes that private sector entities working with digital transformation of energy systems have a lucrative business opportunity to address these challenges. In conclusion, Mr Kambanda encouraged stakeholders and development partners to join forces and adopt a coordinated and collaborative approach to remove all regulatory bottlenecks to create a conducive environment for private investments in the energy sector.

Ms Ilham Talab, Technical Advisor, GET.invest, shared insights on **accelerating RE investments in Africa**. GET.invest, as a European programme supporting investments in decentralised renewable energy and supported by the European Union (EU), Germany, Sweden, the Netherlands, and Austria, is actively engaged in providing Technical Assistance to bring more projects and businesses to the doors of investors. To date, the programme has mobilised over 400 million Euros. Ms Talab presented two examples of the type of support GET.invest provides and the resulting impact on the ground. The first example was an off-grid solar company providing and financing solar equipment for productive use in Tanzania and Uganda. The company has been supported to financial close in a total of 3.5 million Euros, creating jobs for over 100 employees and reaching out to over 12,000 smallholder farmers and fishermen. The second example came from an on-grid, 82MW, solar PV project in Guinea, which is one of the largest independent solar power production projects in Western Africa. GET.invest is supporting the company translate the business model into 'finance speak', and to unlock concession agreement talks and term sheets with financiers. The expectation is that over 300,000 families will have access to clean power once the project materialises. In addition, the project is foreseen to create hundreds of direct and indirect jobs.

Mr Roberto Vigotti, General Secretary at the RES4Africa Foundation, focused on **enabling conditions to deliver deep RE investment in Africa** and noted that the private sector is willing to invest, but that a range of barriers stand in the way. Firstly, there is a distinct lack of adequate, clear and consistent long-term policies. This is often due to weak administrative capacity and lack of skills and resources within local administrations that could support the technical requirements of renewable energy projects. Secondly, bankable projects, ideal for investors, are few and far between. Mr Vigotti linked this, partly, to the low creditworthiness of power off-takers amid artificially low electricity tariffs and operational inefficiencies. These factors expose independent power producers (IPPs) to high financial risk. Mr Vigotti noted that several good European instruments that support renewable energy investments in Africa do exist, but that they are fragmented and fail to offer the necessary support to tackle the above-mentioned issues in key phases of the project cycle.

To address this, [renewAfrica](), as a coalition of leading European actors involved in the renewable energy value chain, works to help leverage the scale of capital, technology and skills needed for the deployment of renewable energy solutions in Africa and, more broadly, to the sustainable energy transition on the continent. As an industry-backed initiative, renewAfrica advocates for the creation of a European comprehensive programme for renewable energy investments in Africa, promoted and owned by EU institutions. The goal would be to include and deliver end-to-end support, with a focus on utility-scale projects, along the entire project lifecycle for all renewable energy technologies, as well as infrastructure and grids in all African countries. According to renewAfrica, such a programme should act through four pillars: policy dialogue, capacity building, technical assistance and financial de-risking. This structure could support the creation of a sustainable pipeline of bankable renewable energy projects and support greater use of Public-Private Partnerships (PPPs).

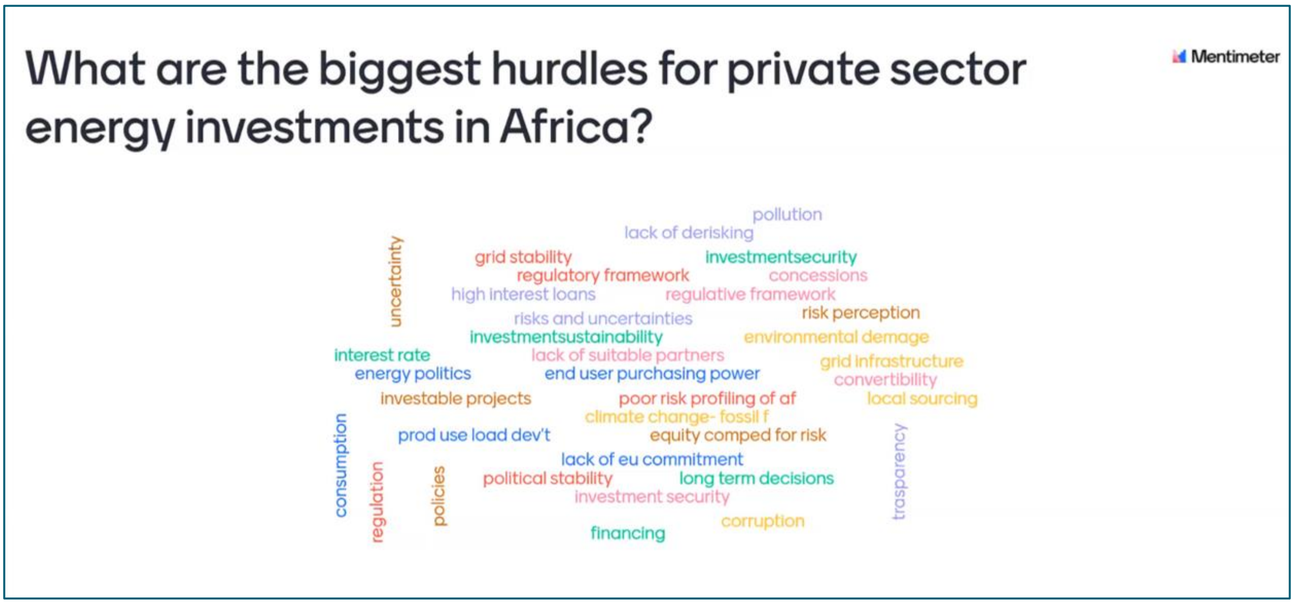

Figure 1 Responses from AEEP Energy Talks participants on 'What are the biggest hurdles for private sector energy investment in Africa?'

Panel Discussion Including Q&A

African Utility Stabilisation

To reach an ideal situation where renewable energy is not only considered on project-level but as well-funded investments, **Mr Antonio Passero**, Sub Saharan Program Manager, RES4Africa Foundation, remarked that African utilities need to be stabilised. According to Mr Passero, at the moment, both public and private utilities are caught in a vicious cycle where bad quality of services leads to less revenue, ultimately prohibiting investments. There is a possibility for private participation to stop this vicious cycle by providing the investments the public sector cannot afford.

Mr Kambanda added that African utilities indeed face challenges with regards to sustainability and finance, but also in terms of grid maintenance and grid extension, due to low capability to collect funds from clients and insufficient finance for extension of grids. To tackle this, the AfDB has launched the [Sustainable Utility Transformation Agenda](), which looks at different ways to support utilities to become financially sustainable and increase their capability to plan for equipment maintenance.

Realising the Interconnectivity of Partnerships

Ms Louise Paulsen, MD, Vestas South Africa, called for more discussion around when and how partners in different partnership realise their interconnectivity, since this can, in her opinion, often be the missing link to success. Taking South Africa as an example, Ms Paulsen explained that, on the one hand, Eskom controls the South African grid and relies on tax revenues, and on the other, companies need investments, a stable grid and Power Purchase Agreements (PPAs) to be in place, but that it is only when all parties realise this interdependence that real, impactful results can be achieved. Ms Paulse noted it would be beneficial to discuss more in-depth, which frames and models enable successful partnerships, and how these partnerships work in practice.

Additionally, both Ms Paulsen and Ms Talab noted there is a tangible change happening in the relationship between utilities and the private sector. In the case of South Africa, Ms Paulsen said Eskom is taking steps forward with a new, clear strategy in place and that although the IPP process in South Africa has not been perfect, Ms Paulsen concluded it has been successful, and provides a level of comfort for the private sector, not least through an ongoing flexible dialogue. Ms Talab also reflected on experiences from Nigeria, where she described a shift towards a warmer relationship between utilities and private sector in terms of serving rural areas. Mr Passero added that there is a noticeable trend where the energy regulation in Africa has opened up somewhat for the private sector to get involved in generation, but that much more can still be done to support and promote an opening of and partnerships within the grid sector.

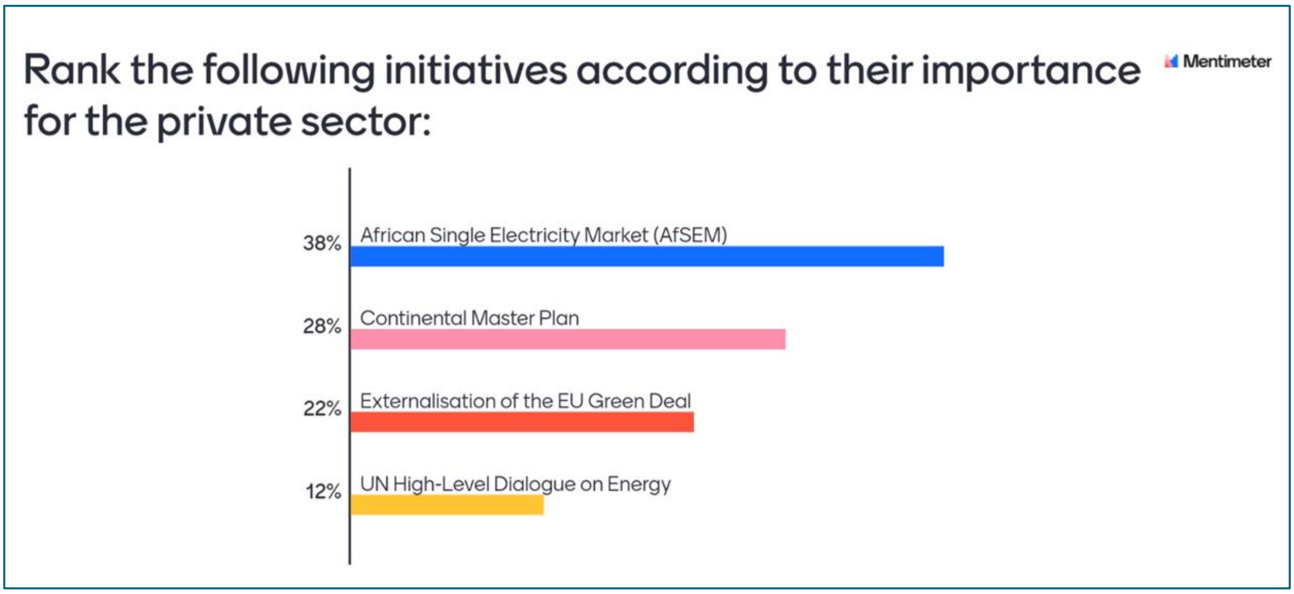

Figure 2 AEEP Energy Talks participants ranked the importance of ongoing initiatives for smoother private sector operations within the energy sector in Africa.

Clear and Long-Term Regulation to Increase Investor Confidence

Ms Liesbet Mijlemans, Senior Investment Officer, ElectriFI, highlighted that from an investor and entrepreneur point of view, the most important aspect in the energy sector is clarity and visibility. Unstable or unclear situations force companies and investors to make assumptions, which costs unnecessary time and money and decreases the confidence of investors and entrepreneurs. She, however, acknowledged that there are ambitions and a willingness among governments and regulators to work on this, but that the processes are complex.

As an example of support to strengthen regulation, Mr Passero shared that the RES4Africa Foundation is, together with the United Nations Economic Commission for Africa (UNECA), carrying out a structured revision of the regulatory environment of 17 African countries, especially focusing on market openness, attractiveness and readiness. Similarly, the AfDB has identified regulatory bottlenecks and works together with regulatory authorities. Since 2018, the bank publishes the Electricity Regulatory Index for Africa where African countries are assessed and ranked in terms of regulation.

A question from the audience pointed out that the lack of appropriate policies and regulations makes stand alone and hybrid mini-grid investments difficult. Ms Talab responded and remarked that mini-grids are challenging due to their nature of required up-front investments and later tariff-collection from, often, rural communities, but that experience form Nigeria and Uganda show that by bundling different sites to create scale and through the auctioning of sites, mini-grid developers have been successful and able to reduce tariffs for consumers. Ms Paulsen agreed and added that mini-grid projects developed in tandem or bundled work to de-risk the projects to some extent. Ms Mijlemans pointed out that mini-grid models work best when governments have clear and long-term plans and regulations for licensing, tariff-setting and gird-extensions and mentioned Kenya as a forerunner and example of how clear regulation, combined with available subsidies and grants, has led to successful mini-grid development.

Capacity Building, Data and Environmental Impacts

Mr Kambanda reminded the audience that regulation in the African energy sector is relatively new and that most of the regulators have commenced their work after the year 2000, leaving room for more capacity building in many countries over the coming years.

Ms Paulsen added that the concept of cleaner energy is a new rhetoric on the continent, compared to Europe where people have been engaged in the debate for longer. She, therefore, called for discussion on capacity building as a critical component of the development. She summarised that talking about provision of electricity on the continent without skills and a manufacturing base will only lead to Africa being an expensive destination for businesses and investors. Similarly, Mr Passero underlined the importance of advanced training courses for the technical regulatory field.

In addition, Mr Kambanda said that the availability of information is a key component, not only for all actors to make informed decisions, but also for de-risking projects. The Africa Energy Portal is an effort by the AfDB to scale-up and aggregate all available data and information on the continent and to inform both the private and public sector in their long-term planning.

Finally, a question from the audience spurred discussion on the relation between utilities, renewable energy and environmental impacts. Ms Mijlemans said that the starting point for ElectriFi and many others on the panel is to always work towards increased Environmental, Social and Governance (ESG) performance. Ms Paulsen spoke of Vestas' experiences with the Lake Turkana Wind Power Project in Kenya and said that it has shown the importance of considering not only environmental but also socio-economic aspects, including the interaction with local communities, in renewable energy projects.

Closing Remarks – What is the most impactful improvement that can be made?

In closing, the panellists agreed on three key themes that can have the biggest impact on private sector investments into renewable energy in Africa: cooperation, communication and clear regulatory frames. Ms Paulsen called for bridging the paradigm of fear and mistrust between the private and public sector. She noted that everyone in the field wants to succeed; governments depend on tax revenues and the private sector depends on profits, but the one cannot happen without the other. Ms Talab added that there is no one separate action or entity that will have the biggest impact, but rather that an integrated approach, framed by what she called 'loud, legal and long' regulation is needed. Ms Mijlemans went on to underline the importance of clear communication between the public and private sectors on long-term regulatory frameworks and Mr Kambanda noted that in addition to transparent and clear policy, the negotiating capacity of African governments must be further supported and strengthened. Finally, Mr Passero pointed out that there should be a clear understanding that the private sector cannot substitute the public sector, instead the aim is to find synergies and co-exist.

AEEP Energy Talk Conclusions - Leveraging Private Sector Investment to Speed Up Renewable Energy Deployment in Africa

- The primacy of enabling regulatory frameworks as identified in the Report of the Africa-Europe High-Level Platform for Sustainable Energy Investmens in Africa (SEI Platform) was underlined by the full range of webinar participants.
- This imperative is clearly receiving attention already from both public and private sector actors, who are acknowledging the need to work more closely together.
- What is needed is a continued level of increased alignment, collaboration and leverage between the public and private sectors in both Europe and Africa, fully utilising existing, established European instruments in the process.
- The AEEP will continue to foster political dialogue to this end.