

# High-Level Dialogue on Energy 2021

Annotated Outline of the Theme Report on Energy Finance and Investment<sup>1</sup>

Co-leads: European Investment Bank, International Energy Agency  
and the UN Economic Commission for Africa

## Goal

Inclusive economic growth and enhanced livelihoods will mean rising global demand for energy related services, especially in countries such as those in Africa with a high share of people without access to electricity.

Ensuring that these needs are met while bringing down emissions will require rapid improvements in energy efficiency and a major ramp-up of investment in the provision of clean, reliable,

recommendations could be implemented in ways that are collaborative across a range of stakeholders with a focus on outcomes.

## Context

Moreover, poverty induced by the pandemic could lead to around 6% of the population of sub-Saharan Africa who currently have electricity connections losing the ability to afford basic electricity services during 2020 (*IEA World Energy Outlook 2020*).

The pandemic has underlined the urgency of ensuring that the world gets on track for the SDG 7 goals. However, it has also exacerbated the affordability of energy for large parts of the population and weakened the financial situation of many of the entities that are promoting access, including utilities and rural electrification companies.

#### Clean energy transitions towards net zero emissions by 2050

- x Over the last year, many of the planet's largest economies and companies have announced that they aim to bring their emissions down to net zero by the middle of this century or soon after. Making economies carbon-neutral by 2050 is a huge undertaking, and at heart it is an energy challenge, as the energy that powers our daily lives produces three-quarters of global emissions.



Central banks as well are increasingly seeing climate change as a source of financial risk. The Network for Greening the Financial System is a network of 83 central banks and financial supervisors advocating a more sustainable financial system. Banks are being under supervisory pressure regarding climate-related risks.

In those countries with adequate savings pools, there is good potential for financial learning among local actors, which can further unlock low-cost finance, when appropriate policies are put in place.

## Challenges

Accelerating the flow of public and private investment to meet the world's climate and energy access and development needs will require multiple policy tools and instruments to address a range of market failures and to appropriately allocate and manage risks. These range from supportive energy policies and price signals (notably via fossil fuel subsidy removal and carbon pricing), to economy wide issues of well-functioning markets and effective governments, to the effective use of financing tools and development finance to mobilise private investment.

The available financing with appetite for sustainable finance does not always match with the risk-

## Challenges with financing energy access

Utilities in many countries with a large access deficit are challenged by poor planning, weak financial positions and struggle to undertake new investments and at the same time service existing debt obligations and meet operating costs. Alongside increasing revenue losses due to COVID-19 shock, this hinders a rapid expansion of reliable grid-connected electricity access.

The pandemic has also increased the importance of affordability as a barrier to access clean energy. Connection to the grid, mini-grids, off-grid solutions, or investment in cook stoves have a high upfront cost for the third of the global population without access.

Connecting households distant from the grid may incur costs that are not easily recuperated via the additional revenue streams such new customers bring and other solutions may be necessary.

There has been considerable innovation in business models for off-grid and mini grid renewable systems, via models such as pay-as-you go and third-party ownership for solar home systems, which offer energy-as-a-service. However, whilst already operating in a high-risk market, some nascent companies promoting rural electrification by operating mini grids in rural locations and providing off-grid solar services are facing additional financial difficulty or even insolvency because of the pandemic.

Even for connected consumers, reliable energy is not a certainty. In many parts of Africa, transmission and distribution investments have not kept up with investments in generation, resulting in high losses on the most fragile networks (in some cases as high as 40%) and unreliable and poor quality of services. Data and analytics may serve to better inform distribution investment decisions by optimising cost/benefits and reducing uncertainty. This reduces credit risk, positively benefiting price and availability of funds.

Financing challenges for access encompass end-user credit risk, the ability and method of payment for electricity, a scarcity of domestic investor capital for mini grid projects, as well as broader issues such as currency risk. Significant political and public and private financial commitments are necessary to overcome these barriers and accelerate deployment.

The uptake of clean cooking solutions continues to face many barriers, especially in areas where firewood does not have a direct financial cost. This hinders investment in cook stoves and the development of

Lengthier decision-making and permitting processes throughout the development cycle increase project costs. Red tape, lacking coordination, and slow decision-making processes are harmful not only the speed of project development but also their development and financing costs.

Institutional and human capacity can also be a major constraint: many governments, particularly in developing economies, have limited experience and capacity to develop regulations, manage, structure and negotiate the contracts that underpin clean energy investments. The costs associated with professional and legal services can be substantial.

Lessons learned fr

The cost and availability of finance is closely related to the enabling environment for new clean energy projects. Attracting private financing depends on the energy policy frameworks including infrastructure planning, fiscal incentives and market and regulatory issues.

Early stage project development spending is needed to develop investment opportunities and ensure a steady pipeline of projects coming to market. Resources may be scarce in the public sector and the private sector not always properly incentivized, resulting in a shortage of grants, early-stage capital and technical assistance.

Development Finance Institutions and International Financial Institutions play an important role addressing market failures and addressing investment gaps but their financial firepower is inherently limited by their balance sheets. Public banks need to step up their role as catalysts for investment, for example through blended finance (mix of grants and loans and concessional blended finance) supporting project additionality and cross



|  |   |             |
|--|---|-------------|
|  | [How to] Set effective incentives for clean energy projects, such as competitive procurement mechanisms, and equipments to meet targets                     | 1 - 4 years |
| Targeted support to unlock energy transition and leave no one behind |   |             |
|  | [How to] Deploy financial instruments that can help to manage energy project risks and leverage available funding thanks to portfolio guarantee for lenders | 0 - 2 years |
|  | [How to] Support investments in riskier technologies (e.g. CCUS, hydrogen) and enabling infrastructure  | 2 - 5 years |
|  | [How to] Provide financial resources and capacity building to support energy access and an inclusive, just transition                                       | 0 - 5 years |

- b. Do recovery plans exclude investment not Paris aligned/not fit for net zero ?
- c. Development money included in the recovery programmes
- d. Energy investment needs for 2025 milestone and SDG7 target compared to the sums mobilized for the recovery?

WG members are invited to identify pragmatic recommendations/plan of action to facilitate Paris alignment, Percentage of recovery plans to climate action (e.g. 50%, percentage of recovery plans to support energy transition) and support to developing economies (e.g. representing x% of the recovery funds) Link company recue plans with increased climate ambitions

2. [How to] Provide financing and technical assistance to accelerate project preparation and development
  - a. Increase risk capital for project development in the market (developers, utilities) towards early-stage project development
  - b. Focus DFIs and MDB interventions on developing countries with less experience
  - c. Expand Project Development Assistance and Technical Assistance to support the preparation of bankable projects
  - d. Mobilise domestic resources and local capital

WG members are invited to discuss solutions to accelerate the implementation of projects already in the pipeline including (i) addressing barriers to expand upstream projects, (ii) best practices to increase the projects brought to market for financing, (iii) increase of resources (doubling ?..) needed to develop the projects to meet 2025 milestones and 2030 targets.

Possible illustrations: African Legal Support Facility (ALSF) run by the African Development Bank ALSF (aflsf.org)  
tbc

3. [How to] Set effective incentives for new clean energy projects, such as competitive procurement mechanisms, and equipment to meet milestones and SDG7 targets in a timely fashion
  - a. Roll-out effective electrification programs at national level (incl. innovative business models)

## Targeted support to unlock energy transition and leave no one behind

4. [How to] Deploy financial instruments that can help to manage energy project risks and leverage funding thanks to portfolio guarantees for lenders
  - a.

Address the social consequences with compensation measures and support investment needed to reduce energy consumption

8. [How to] Design broad and ambitious clean energy strategies and system planning with high shares of renewables
  - a. Set out clear targets plans
  - b. Present auction programmes and a pipeline of projects for the upcoming years demonstrating to investors that there is a market
  - c. Prepare sector planning demonstrating long-term visibility to the market

WG members are invited to formulate a plan of action for governments to reduce and

