Session 12: Financing (and subsidies) for Small Providers and Renewable Energy

Thursday, June 11, 2009

The experience of SenterNovem and E+Co in developing private entrepreneurship for operating renewable energy projects reveals a number of typical issues faced by small providers. Their financial, managerial and technical expertise is often very low. Also, there is little experience with regulatory frameworks for small providers (however, see the presentation of the Tanzanian regulators in Session 8.) In addition, commercial banks are generally not willing to finance small scale (typically offgrid) projects mainly due to a lack of experience and a related perception of higher risk. In some developing countries outside of Africa, the financing bottleneck has been alleviated to some extent through specialized lines of credit or partial guarantees established with the assistance of the World Bank and other donors as well as specialized financing companies.

The approaches presented at the workshop aim at decreasing the need for public sector subsidies (and increasing private sector equity) through the participation of venture capitalist investors. One of the key challenges regarding the involvement of venture capitalist partners is their need for higher returns demand because of actual or perceived risks (notably the country and foreign exchange risks).

Small providers need technical and business support. Entrepreneurs require guidance in transforming general proposals into "bankable" business plans of sufficient quality. The business plan should explicitly demonstrate the viability, identify specific risks and formulate mitigation measures. AMADER, Mali's REA, has developed model business plans for use by new private operators seeking grant money (see Session 4).

The African Biofuel and Renewable Energy Fund example emphasizes the role donors can play in developing national renewable energy markets in SSA. In addition to support for renewable energy initiatives, donors can also provide financing to municipalities and communities. Donors can support renewable energy investment facilities with major local banks and initiatives aimed at minimizing the risks faced by the banks with regard to renewable energy projects. The banking sector should build capacity to reduce the risks of financing renewable energy.

A recent survey of renewable energy executives presented by the newly established UNEP RE Finance Centre confirms the importance of strong government commitment to scaling up electrification and a friendly investment climate for an increased financing flow to innovative energy enterprises. In the context of the current financial crisis, investments in rural energy power projects have slowed down and many developers have abandoned business. The financial crisis has also led to higher cost of borrowing and shorter repayment periods. Large transactions have been more successful than smaller deals.

Presentations:

Commercial funding for small scale providers. Kofi Nketsia-Tabiri, Regional Manager, E+Co.

ConCap: Building a new fund for SSA access? Dr. Fritz-Morgenthal, UNEP Reewable Energy Finance Centre & Connective Capital AG.

Subsidy for private sector MHP. Case study in Rwanda. Marcel Raats, Energising Development / SenterNovem.