Background note for Session 4: Innovative Financing for promoting sustainable energy for all in LLDCs

In this session, the role of the private sector in promoting sustainable energy in LLDCs will be explored including its role in promoting energy access for industrial development and structural transformation including public-private-partnerships. Innovative Partnerships are crucial for developing energy infrastructure, accelerating energy access, enhancing efficiency and promoting renewable energy. The session will provide a platform for sharing of experiences, successes and challenges and identify recommendations for enhancing private sector partnerships.

I. Introduction

Achieving sustainable energy for all by 2030 (universal energy access, doubling the share of renewable energy in the global energy mix, and doubling the rate of improvement in energy efficiency) will require innovation and increased investments in clean energy technology. Official development assistance and concessional financing are cornerstones of this effort, particularly for increasing energy access in developing countries. The global need, however, far outstrips what public resources can provide. Therefore, public funds must be used to attract private sector funding and investments of all kinds. Ultimately, the private sector will be a critical piece in achieving sustainable energy for all. To achieve these three goals, global clean energy investments need to nearly triple from the current $400 billion a year, to more than $1 trillion a year.

LLDCs, and in particular the Energy Access theme, may represent a smaller absolute investment need, but success is more urgent in the development context. Formidable barriers remain and need attention including enhancing local and regional capital markets, developing policy frameworks and strengthening human capacity to develop the necessary deal pipeline. In addition, aggregation of investments and financing for small sized base of pyramid investments is critical for scaling up off-grid and micro-grid solutions.

Some public resources will likely be needed initially to crowd-in private finance or to help credit-enhance governments, municipalities or other developers for large grid-connected access investments and (possibly) energy efficiency investments. For smaller investments, a wider variety of approaches and financing models will likely be required, for example aggregation vehicles or business models that reach the “last mile” where consumers often engage in more informal transactions. PPPs are required to bring together the right types of capital to invest in projects in LLDCs. The contribution of the private sector will not only give technical expertise and market insight but it will help maintaining projects economically viable, so financially healthy and self-sustainable even after public funding is ceased.
For LLDC it will be essential to act fast in creating enabling environments for private sector investments and to promote attractive project pipelines. This will require capacity building and well-functioning institutions, transparent, efficient procedures and accountable and competent public and private sectors. Government support for an enabling environment for private investment will be needed to address perceived higher risks linked to sovereign risk issues, the lack of a business enabling environment, or informal or non-existent financial and legal regulations. Government leaders can and will need to take a number of policy and regulatory reforms to help build credibility with investors and effectively scale-up private investment and leverage public resources for country-level implementation. In low-income countries where these issues are most acute, the willingness and ability to pay for goods and services may pose additional challenges to establishing commercially viable business models.

Finally, it also needs to be taken into consideration that today’s decisions should not lock these countries into unsustainable paths of development. Importantly, climate funds may provide additional impetus to promote sustainable energy projects.

**Key questions to address include:**

1. **What is IFC approach to climate change (we will talk here also how we have utilized climate funds/blended finance to help crowd-in private investments, with examples)?**
   - What has been IFC’s track record in helping LLDCs in terms of sustainable energy access (we can draw out lessons we have learned here)?
   - Where does IFC see the biggest opportunities?

2. **What are the challenges and barriers for enhancing the role of the private sector partnerships in promoting sustainable energy for all in LLDCs?**

3. **In the context of the LLDCs, what are the most adequate financial instruments in support of the implementation of sustainable energy projects?**
   - How can we help raise LLDCs’ awareness about these instruments?

4. **From the perspective of an Austrian Multi-Utility, how can the private sector role in promoting energy access for industrial development and structural transformation be enhanced?**

5. **Based on your country’s experience, how can LLDCs create an enabling environment for private sector investment and how can they best be assisted in these efforts?**