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**MEDIA BACKGROUND NOTE**

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## SUSTAINABLE ENERGY IN THE ASIA-PACIFIC LDCs

The Asia-Pacific region is undergoing marked changes to its economy, energy consumption patterns and fuel mix and it is important to ensure that least developed countries (LDCs) in the region will be able to join this rapid development. Many of these countries still face numerous development challenges and therefore “last mile access” to energy has to be prioritized due to its immense impact on poverty alleviation and development. Access to electricity in LDCs increased slightly, from 31.5 per cent of the population having access in 2010 to 34.5 per cent in 2012. From 2010 to 2012, energy access in Asia-Pacific least developed countries grew 3.2 per cent on average per year, from 52.8 per cent of the population having access in 2010 to 56.2 per cent in 2012.

Nonetheless, as many of these countries are in the initial stages of industrialization, there is a great opportunity to help countries leapfrog over traditional fossil-fuel energy sources and move towards a low carbon economy focused on renewable energy and energy efficiency.

Achieving sustainable energy for all by 2030, an objective that is reflected in the Sustainable Development Goals (SDGs) and the Sustainable Energy For All (SE4All) agenda (i.e., 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, deployment of modern technologies and increased investments. In LDCs, official development assistance and concessional financing are

cornerstones of achieving SDG 7: “to ensure access to affordable, reliable, sustainable and modern energy for all.” The need, however, far outstrips what public resources can provide. Therefore, public funds must be used in creative ways to attract private sector funding and increase investments in the sector. To achieve the three SE4ALL goals, it is estimated that global clean energy investments need to nearly triple from the current \$400 billion a year, to more than \$1 trillion a year.

LDCs rarely benefit from larger financing schemes to the same extent that other, more prosperous developing countries do, because of the smaller scale projects, lack of substantial local investment and institutional capacity constraints. The main financial obstacles for sustainable energy projects and programmes, include the high costs for energy infrastructure projects (starting from project preparation to investment), limited access to funding due to poor or non-existent credit ratings and lack of domestic and foreign private sector partners understanding the business case in the LDC energy sector. These factors, combined with challenges in the regulatory framework and capacity constraints, make it difficult for the LDCs to tackle their energy challenges in a way that taps into the potential of the private sector.

Formidable barriers also needing attention include under developed local and regional capital markets, weak policy frameworks to help spur investment, and limited capacity of investment professionals to develop and follow through the deals in the pipeline.

Financing must be available for various types of projects, as the energy targets will not be met by only expanding the electricity grid because rural areas will be left unserved. In addition, there cannot be a “one size fits all” approach to project design and investment. Rural areas, small island LDCs and the harnessing of renewable resources, all call for innovative and flexible financing solutions that are well suited to small deal sizes, challenging distribution channels and less well developed markets. Financing for decentralized energy systems, including micro-grids and household systems, and investment in smaller, local energy enterprises, is not readily available in LDCs because of the perceived higher risk and lack of investment ready business plans. It is well known that local entrepreneurs need significant support to develop and launch a business in terms of analyzing the market, deciding on appropriate products, developing a financial model, addressing distribution challenges, identifying and pitching the business idea to investors, and securing the financing. Moreover, financing at a range of scales that follows the evolution of the business — from business start up (i.e., seed capital) to ongoing operations (i.e., working capital), to growth of the business (e.g., scale-up capital) — is important in hitting the targets for universal energy access.

It is recognized that the private sector will not take this on alone, and that public resources will be needed initially to provide credit enhancements to governments, municipalities or other developers, for large grid-connected access investments and (possibly) energy efficiency investments. For smaller-scale projects a wider variety of approaches and financing models will be required, for example, aggregation vehicles or business models that reach the “last mile” where customers are hard to reach and have lower incomes.

The international community must now step up to provide the necessary support to leverage financial resources and help LDCs’ to build capacity in order to seize the opportunity for transformative change that will eliminate energy poverty and promote sustainable development in these countries. This

requires that all stakeholders need to join their efforts to make sure that the most vulnerable countries will enter the path of transitioning to sustainable energy. Public-private partnerships are an important way to overcome practical challenges and meet financing gaps, also leveraging the impact of Official Development Assistance (ODA) and investment from multilateral and regional development banks, which can play a key role for achieving the SDGs. The growth of the social enterprise sector is also a new and emerging way to bring in capital and know-how to address the financing gap.

To meet the energy demand in the Asia-Pacific region, assuming business-as-usual, will require a cumulative investment of approximately \$11.7 trillion in the energy sector (2010-2035). By 2030, it is estimated that 5 terawatts (TW) of net new power capacity will be added worldwide, requiring a \$7.7 trillion investment, of which 2.7 TW or \$3.6 trillion in investment is likely to be in Asia and the Pacific region.

To achieve the global goals on energy in Asia-Pacific LDCs, it will be essential to act fast in creating enabling environments for private sector investment and to promote investment-ready project pipelines. This will require support across all parts of the value chain, including well-functioning financial institutions, strong and transparent policy and regulatory instruments, business advice and mentoring, and capital to launch and scale up a business. This will help build credibility with investors to effectively scale-up businesses and leverage public resources. Also governments and utilities can focus on improving the governance and management of their operations to increase profitability and to enhance its creditworthiness.

Considering the ambitious global policy objectives on sustainable energy and the acute energy access gap in least developed countries (LDCs), rapid energy transition will require a strong and concerted effort from all stakeholders coupled with significant investment and deployment of modern technologies.