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SESSION 2

FINANCING INITIATIVES AND BUSINESS PLANS THAT WORK

This session will explore what are the financing initiatives and business plans that have been successful in bringing transformation in the energy sector of LDCs or other developing countries. How can these initiatives be scaled up to achieve rapid energy transition will be also discussed.

Achieving sustainable energy for all by 2030 an objective that is reflected in the SDGs and the 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 least developed countries (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 undeveloped 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, less well developed markets, and in higher levels of poverty. 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 know 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’ actions 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 transition 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.

This session will explore the range of different financing options that are widely used for different business models that have been successful in transforming the energy sector of LDCs. There are many successes to celebrate and best-practices to learn from in guiding investment in the sector. To showcase some of these successful initiatives, the speakers in this session will present case studies on selected topics.

KEY QUESTIONS TO ADDRESS INCLUDE:

- How can the current initiatives that have worked well be scaled up and replicated?
- What innovative financing mechanisms have been successful in Asia-Pacific LDCs? What are the best practices from blended finance projects?
- Based on your country’s experience, what is needed for enhancing local and regional capital markets?
- What are the main challenges for accessing finance to improve access to sustainable energy?
- What are the challenges and barriers for enhancing the role of private sector partnerships in promoting sustainable energy initiatives in LDCs?