SESSION I

INITIATIVES AND FINANCING MODELS TO ACCELERATE ENERGY TRANSITION ACROSS LDCs

This session will explore the initiatives and financing models that have been successful in bringing transformation in the energy sector of LDCs or other developing countries. In addition, best practices and how to scale-up initiatives to achieve rapid energy transition will be discussed.

Achieving sustainable energy for all by 2030, an objective that is reflected in SDG7 on affordable and clean energy (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. Current global estimates suggest $12 billion to $40 billion investment per year is required to achieve universal access to electricity in all LDCs by 2030. [1] Accelerating sustainable energy investment and deployment in LDCs will require a more attractive and secure environment for potential investors. Official development assistance (ODA) and other concessional financing are cornerstones of investment in LDCs, but investment needs surpass what public resources can provide. Therefore, public funds, both domestic resources and ODA, must be used in creative ways to attract private sector funding and increase investments in the sector.

It is alarming that sustainable energy investments in LDCs are marginal in comparison with similar investments made in developed and developing countries.[2]

Despite the extraordinary growth potential, which the energy sector of least developed countries presents, LDCs rarely benefit from larger financing schemes to the same extent that other, more prosperous developing countries do. This is 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 implementation), limited access to funding due to poor or non-existent credit ratings and guarantees to make investment more attractive to potential investors and lenders. Also, lack of domestic and foreign private sector partners understanding the business case in the LDC energy sector present a challenge. These factors, combined with constraints in the regulatory framework, policy stability, coherent decision-making and technical and managerial capacity, make it difficult for the LDCs to tackle their energy challenges in a way that taps into the full potential of the private sector.

[1] UNCTAD, The Least Developed Countries Report 2017 - Transformational energy access
Financing must be available for various types of projects. 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 developed markets, and higher levels of poverty. Although many innovative approaches have been adopted in some LDCs, financing for decentralized energy systems, including micro-grids, household systems, and investment in smaller, local energy enterprises, is not readily available in all LDCs. This is 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 achieving the targets for universal energy access.

It is recognized that the private sector will not solve the problem alone, and that public resources will be needed 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. In this context the cost and benefits of public private partnerships need to be carefully assessed. The international community must provide the necessary support for LDCs to leverage financial resources and build capacity, in order to eliminate energy poverty and to promote sustainable development. Stakeholders must join efforts to ensure successful transition to sustainable energy for the most vulnerable countries. This session will explore the range of financing options that are widely used for different successful business models in transforming energy sector of LDCs.

KEY QUESTIONS TO BE ADDRESSED IN THIS SESSION

What type of energy investment is fundamental for LDCs? What are the main challenges for accessing finance to accelerate sustainable energy uptake?

What innovative financing mechanisms have been successful in LDCs? What are the best practices from blended finance projects? How can the current best practices and models be scaled up and replicated?

What measures? can be taken to ensure that development finance institutions (DFIs) increase investments in sustainable energy projects in LDCs?

What are the challenges and barriers for enhancing the role of private sector partnerships in promoting sustainable energy initiatives in LDCs?

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