



# Creating an attractive investment environment for sustainable energy solutions

15 January 2020

11:00-12:30



# Outline

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[11:05 – 11:15] Introduction (10mins)

[11:15 – 12:25] Creating an attractive investment environment

- [11:15-...] Step 1. Defining the market (10mins)
- [] Step 2. Gap analysis – assessing key risks & underlying barriers to RE development (30mins)
- [] Step 3. De-risking investments – identifying potential enablers (30mins)

[12:25 – 12:30] Summary of key take-aways (5 mins)

# Objectives of the session

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By the end of this session, you will be able to:

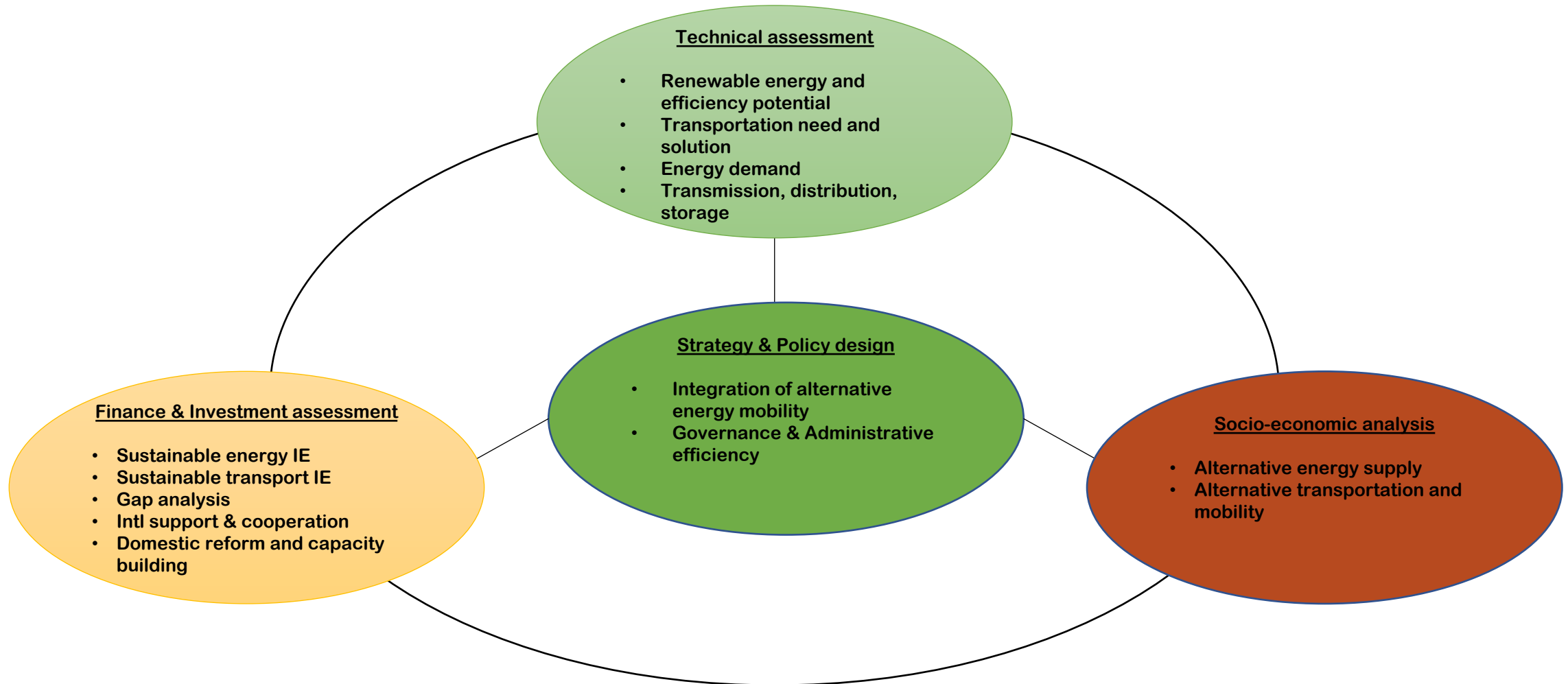
- Explain why investment risks & barriers should be analysed
- Identify key risk categories and underlying barriers to RE investments in your country environment
- Explain the role of policy and financial de-risking measures
- Assess the applicability of different types of investment enablers

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# Introduction

- The roadmap: Where do we stand?
- Rationale for analysing the investment environment

# Sustainable Integration Roadmaps for Energy and Transportation (SIRET)

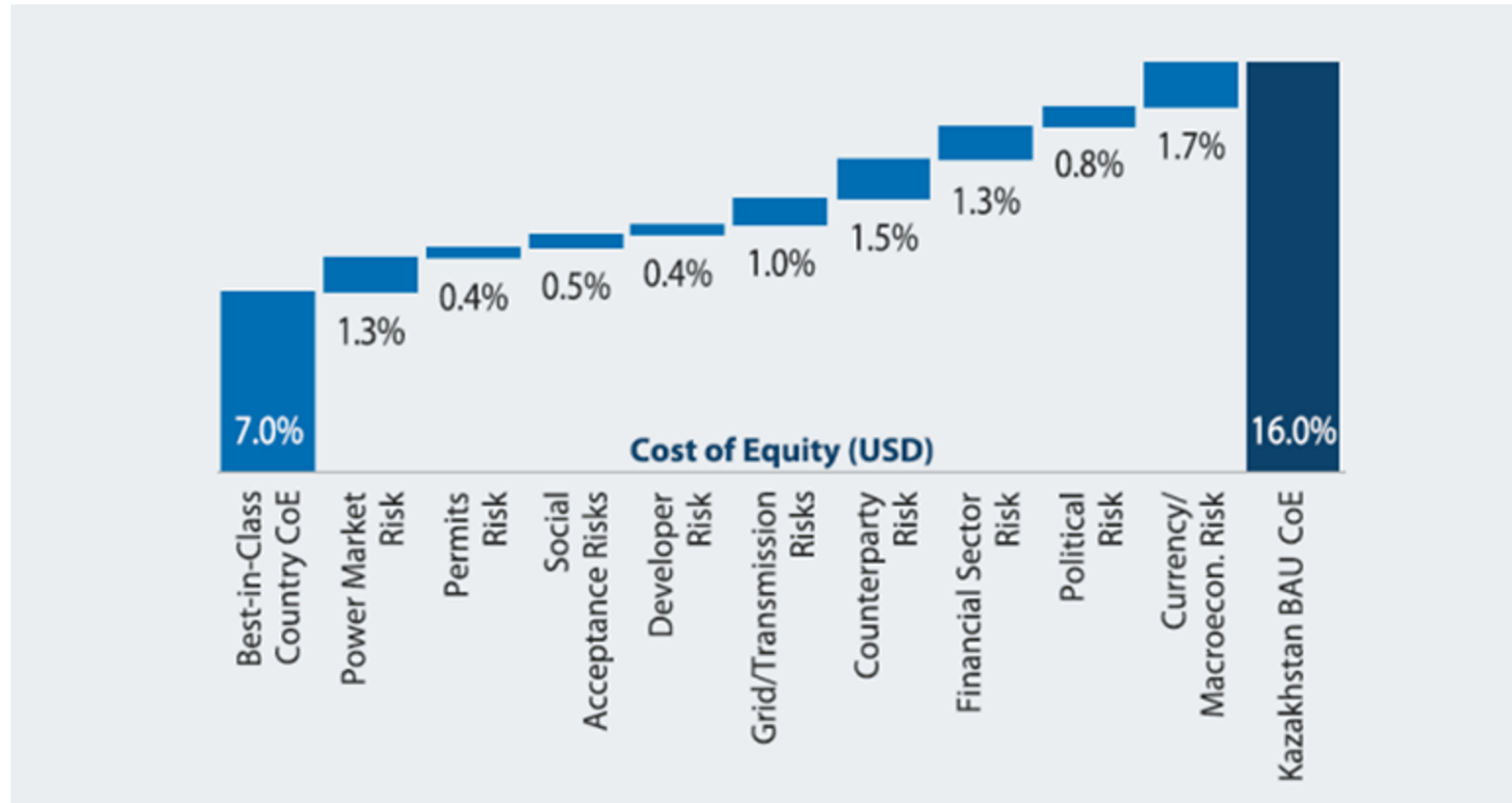


# The roadmap: Defining the preferred scenario

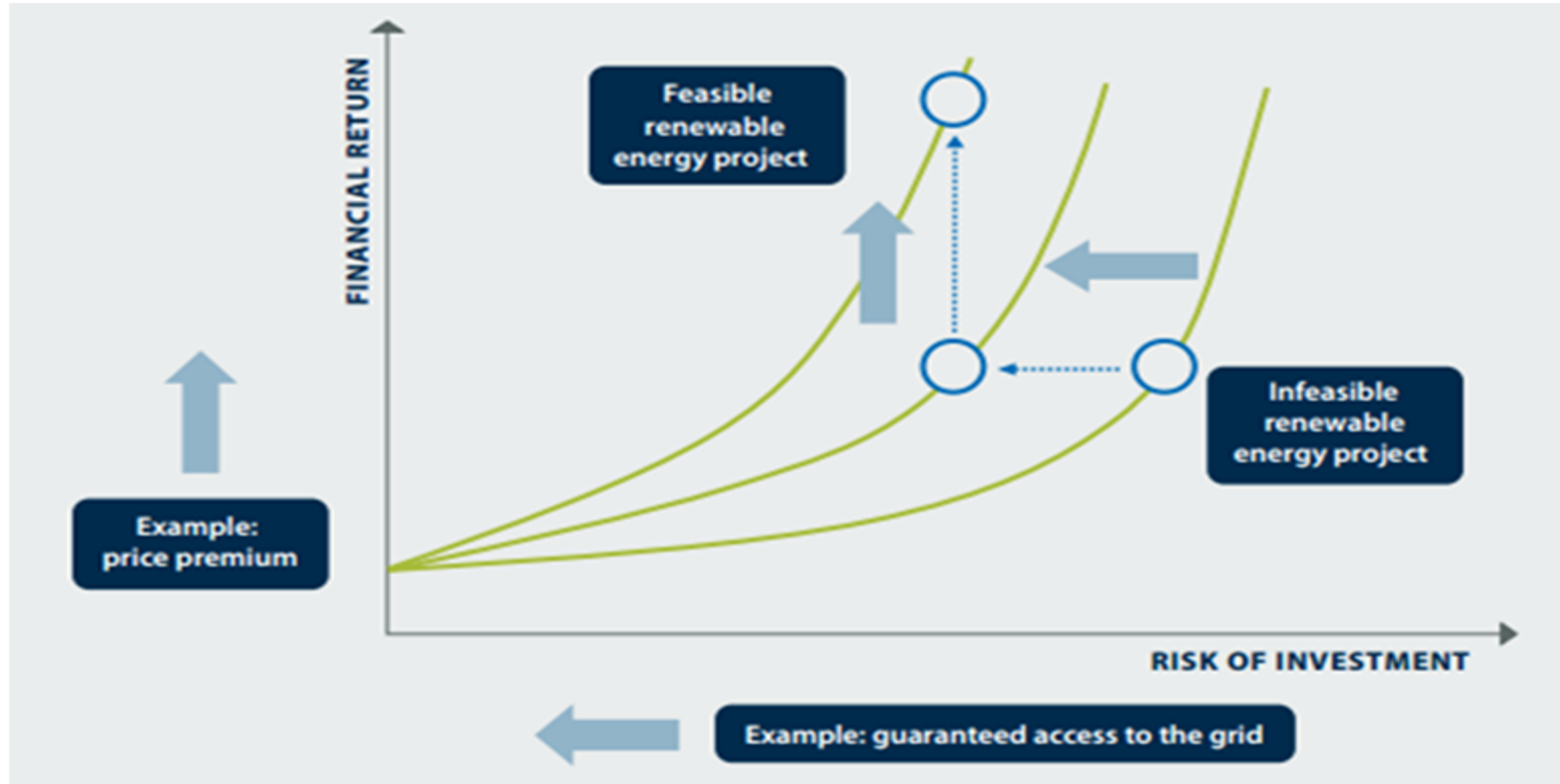
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- What have we learned so far from technical (I) and socio-economic/cost-benefit analysis (II)?
- Are there additional considerations that speak in favour of a *Plan B*?

# Rationale: Risks increase the cost of capital



# Rationale: Policy & financial enablers can de-risk the investments



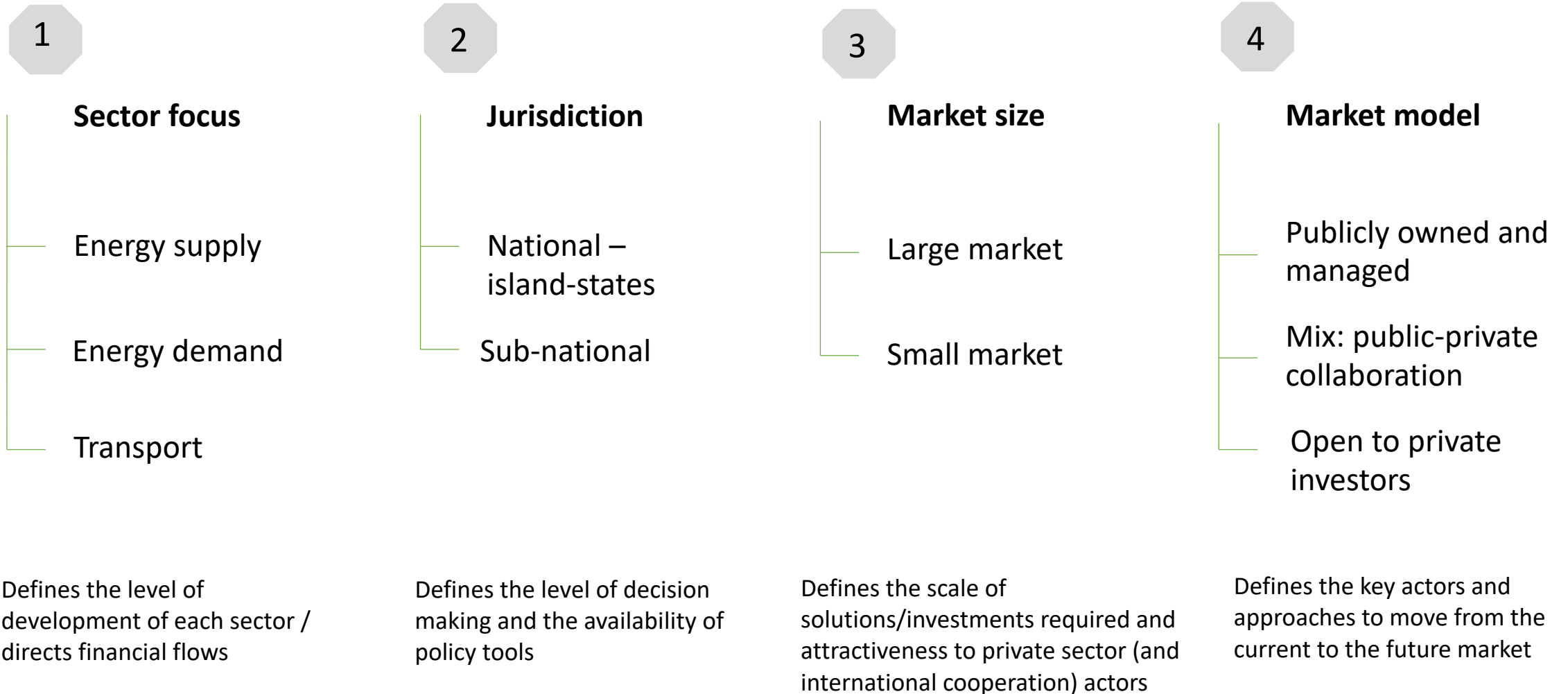


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# Analysis of the investment environment

- **Step 1.** Defining the market
- **Step 2.** Gap analysis – assessment of key risks & underlying barriers to RE development
- **Step 3.** Identification of potential enablers

# Step 1. Defining the market



## Step 2. Gap analysis. Major risk categories

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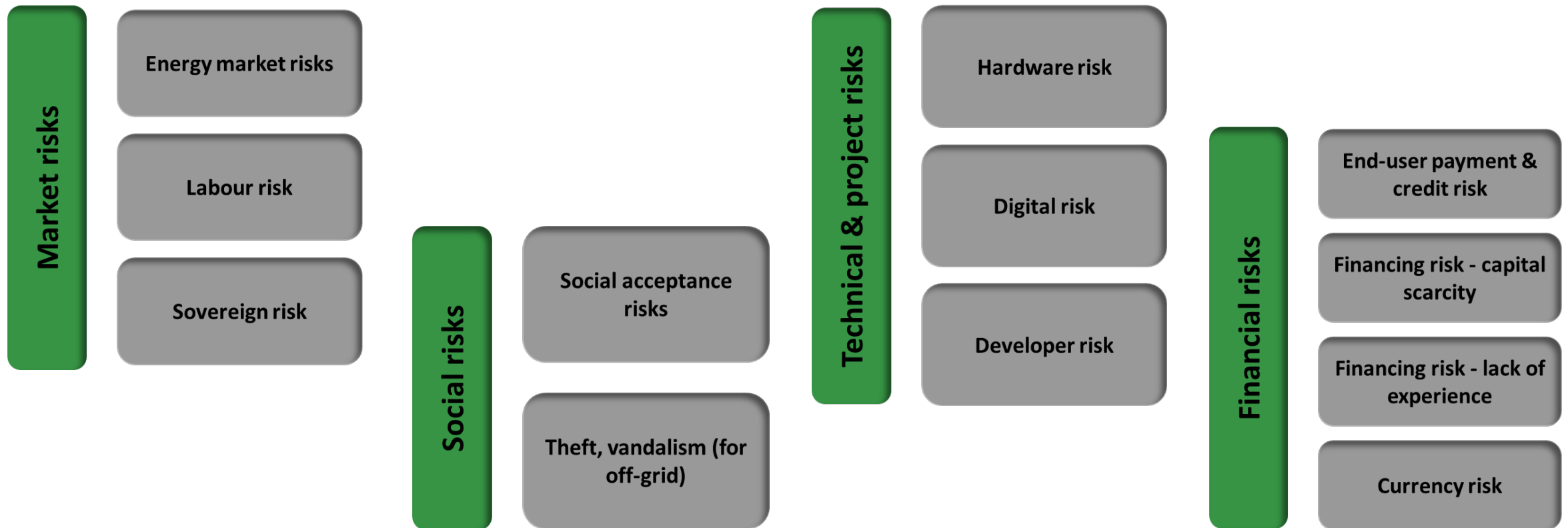
**Market risks**

**Technical & project risks**

**Social risks**

**Financial risks**

## Step 2. Which risk categories are the most prominent in your economy?



# Step 2. Survey

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**Go to: [www.mentimeter.com](http://www.mentimeter.com)**

**ID: ...**

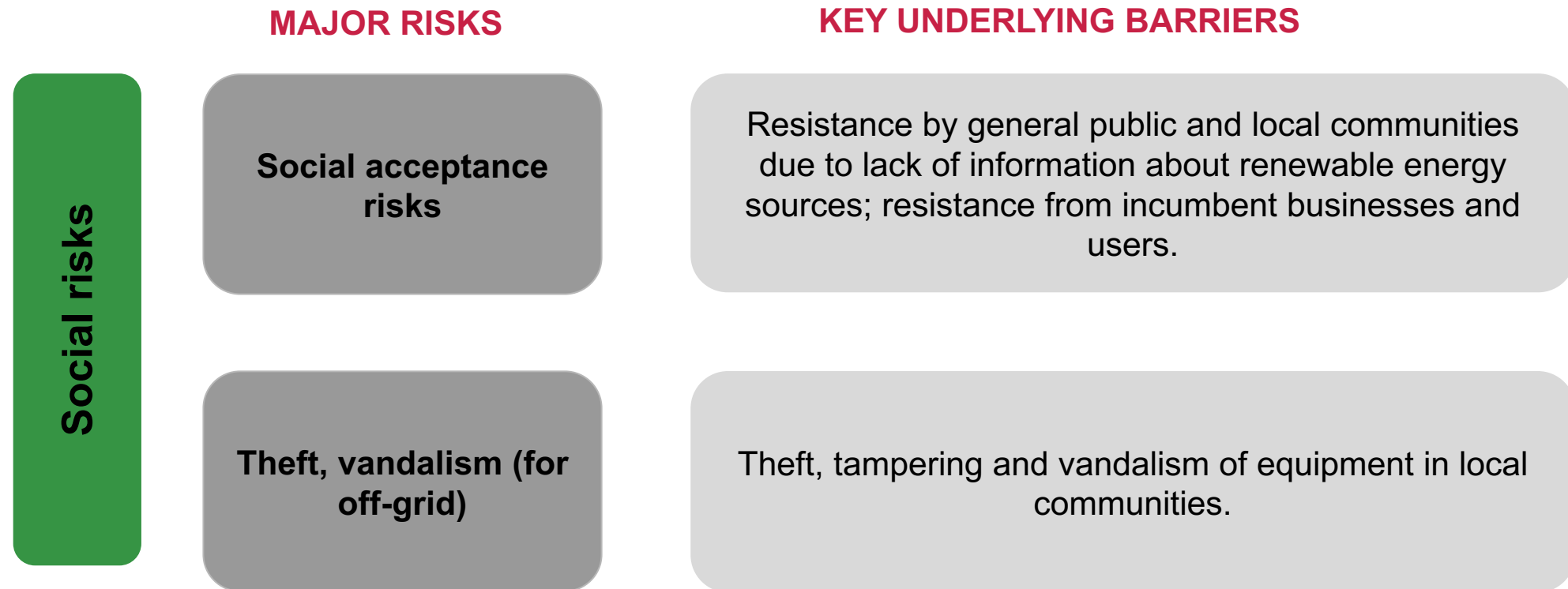
In the market context of your economy... (Yes / No / Not sure)

- Is there a national long-term energy sector strategy?
- If so, does the strategy include explicit targets for renewable energy?
- Is there a resistance by local communities towards the development and use of renewable energy sources?
- Do universities and vocational training institutions offer training in renewable energy technologies?
- Do local banks offer financing for sustainable energy projects?
- Are there subsidies in place to support the development and use of fossil fuel-based energy?

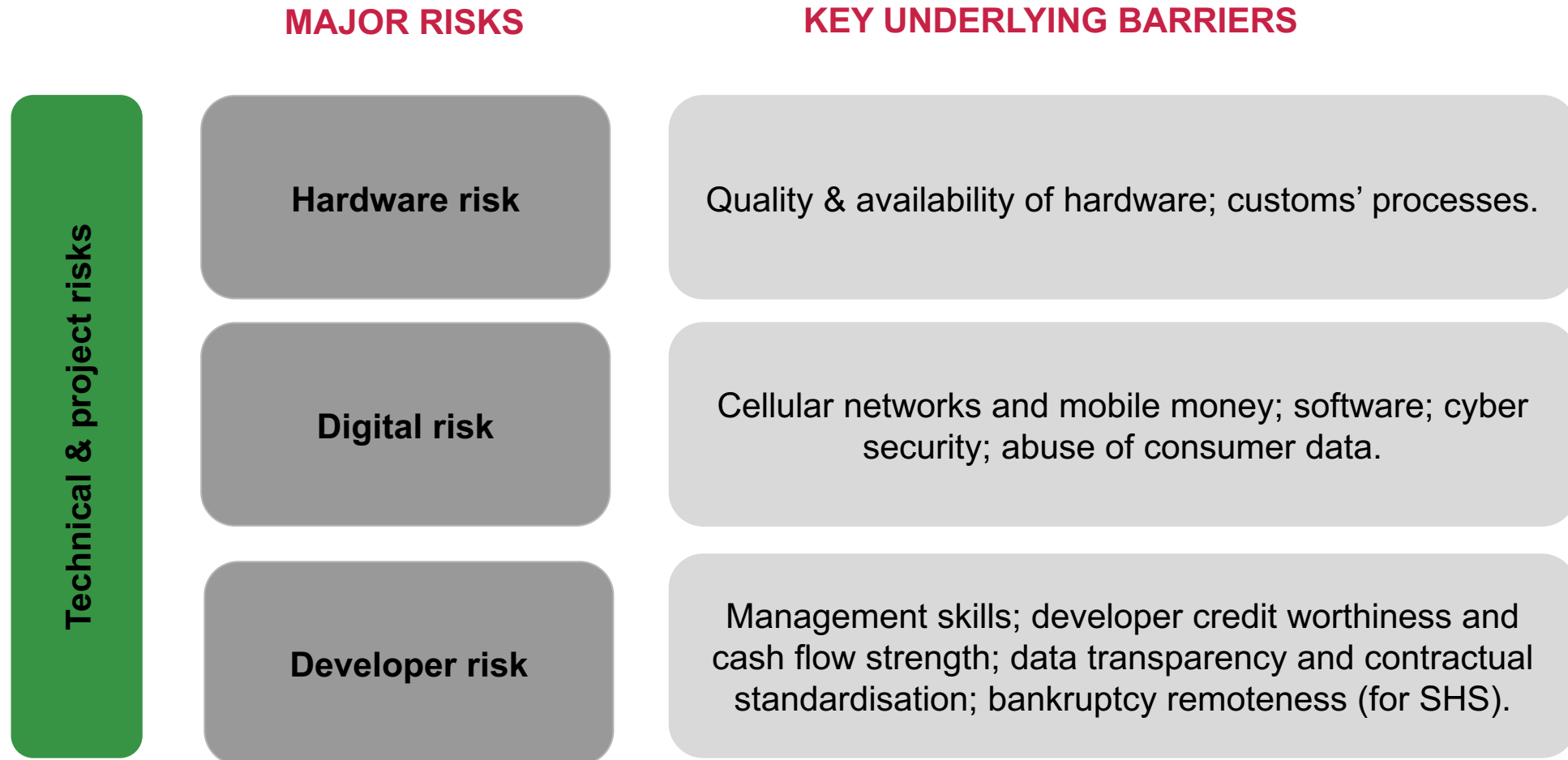
## Step 2. Gap analysis. Key risks & underlying barriers



## Step 2. Gap analysis. Key risks & underlying barriers

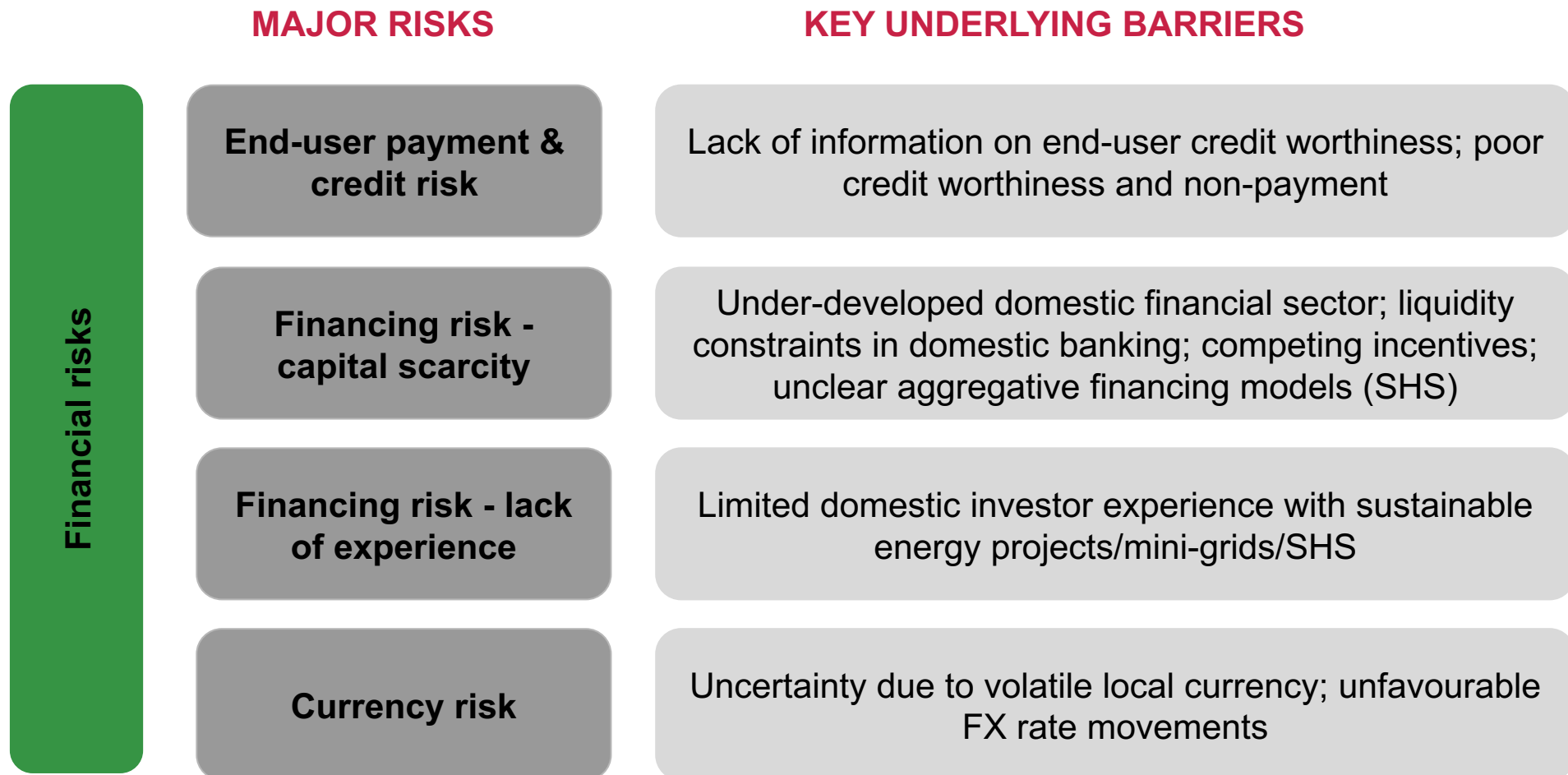


## Step 2. Gap analysis. Key risks & underlying barriers





## Step 2. Gap analysis. Key risks & underlying barriers



# Step 2. Group discussion

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## Instructions

- Two groups
- Select a rapporteur
- Time available: 20mins

## Questions

- Which of these risks/barriers are **most pronounced** in your countries?
- How does the **island context** elevate/reduce these risks & barriers? Are there additional risks that are applicable in this context?

# Step 3. Identification of potential enablers

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## Policy & regulatory de-risking instruments

- Policy & long-term targets
- Institutional strengthening
- Quality/technical standards
- Market information
- Awareness raising
- Human resource capacity development

## Financial & fiscal de-risking instruments

- Administratively set pricing instruments (FIT/FIP)
- Competitively set pricing instruments (auctions)
- Tax exemptions
- Grants/subsidies
- Public loans/equity
- Public guarantees

# Step 3. The policy-maker's toolbox

	ENABLER	DESCRIPTION / EXAMPLE
Policy & regulatory instruments	Policy & long-term targets	Provide clear direction and signals to consumers and industry by developing long-term national renewable energy strategy and policies. Formulate realistic and transparent targets by tier, technology and demographics. Policies should clearly outline lines of responsibility, as well as monitoring and review processes and timelines.
	Institutional strengthening	Public sector awareness raising and building political will of legislators; institutional restructuring (e.g. establishing streamlined and consistent licensing and customs processes); institutional capacity building of ministries and agencies, establishment/strengthening of the energy statistics office.
	Quality/ technical standards	Transparently develop balanced technical/quality requirements for energy installations; develop certification and standards for hardware based on internationally recognised standards. Ensure review and active enforcement.

# Step 3. The policy-maker's toolbox

	ENABLER	DESCRIPTION / EXAMPLE
Policy & regulatory instruments	Market information	Government support to improve information availability, knowledge exchange and network effects: performing initial resource inventory and mapping (including through spatial planning), developing grid extension plans, sponsoring academic studies; making all information publicly available and easily accessible, supporting dissemination.
	Awareness raising	Implementing active publicity, media and awareness campaign targeting key stakeholder groups. Developing and coordinating ongoing stakeholder dialogues and workshops between policy makers, NGOs, communities, community leaders and end users. Supporting the establishment of industry associations and initial industry conferences.
	Human resource capacity development	Support programmes to develop competitive, skilled labour market in renewable energies (all roles). Develop apprenticeships, certificates and education programmes to build skills in utility-scale renewable energy/mini-grids/SHS (engineering, installation, marketing, business management).

# Step 3. The policy-maker's toolbox

	ENABLER	DESCRIPTION / EXAMPLE
Financial & fiscal instruments	<b>Administratively set pricing instruments (FIT/FIP)</b>	Ensuring guaranteed access and a fixed tariff for sustainable energy producers through a feed-in-tariff (FIT) and PPA tendering, including well-designed standard PPA. Alternatively, implementing a feed-in-premium scheme (FIP), whereby electricity is sold on the spot market and producers receive a premium on top of the market price.
	<b>Competitively set pricing instruments (auctions)</b>	Reserving a share of the electricity market and providing financial support for renewable energy producers through auctions and competitive tendering. In auctions, the price is the only criterion to be evaluated, while tenders may include additional criteria.
	<b>Tax exemptions</b>	Removal of import tariff for renewable energy hardware; introducing VAT exemptions for RE businesses.

# Step 3. The policy-maker's toolbox

	ENABLER	DESCRIPTION / EXAMPLE
Financial & fiscal instruments	Grants/subsidies	Providing results-based grants to off-grid/mini-grid developers; offering an end-user per kWh subsidy addressing affordability concerns. Assessing fuel subsidies, phasing-out/down of subsidies, designing transfer programs to affected groups.
	Public loans/equity	Financial products (loans or equity) by the government and/or development banks to IPPs, transmission companies, mini-grid developers in gaining access to capital. The type of instrument, currency and level of concessionality of products may vary depending on specific circumstances.
	Public guarantees	Government (e.g. Ministry of Finance) letter of support for PPA payments to IPPs; development bank partial risk guarantee for PPA payments; public guarantees to commercial banks that are lending to the mini-grid operator.

# Step 3. Enablers target specific risks & barriers.

## Example 1: Market risks for mini-grids

### Mini-grids

### Market risks

What is the key risk?

Energy market risk

What are the underlying barriers for this risk?

**Market access:** Limitations and inability, including due to government regulations, of mini-grid developers to access the electrification market

What policy instruments can mitigate/eliminate/transfer this risk?

Establish a **clear regulatory approach** with two, co-existing regimes: (i) light-touch (no license) and (ii) comprehensive (licensed)

What financial/fiscal instruments can mitigate/eliminate/transfer this risk?

N/A



# Step 3. Enablers target specific risks & barriers.

## Example 2: Financial risks for mini-grids

### Mini-grids

### Financial risks

What is the key risk?

**Financing risk - capital scarcity**

What are the underlying barriers for this risk?

**Under-developed domestic financial sector:** Low number of well-capitalised actors (debt, equity, insurance, pensions); lack of regulatory clarity on new types of financial products.

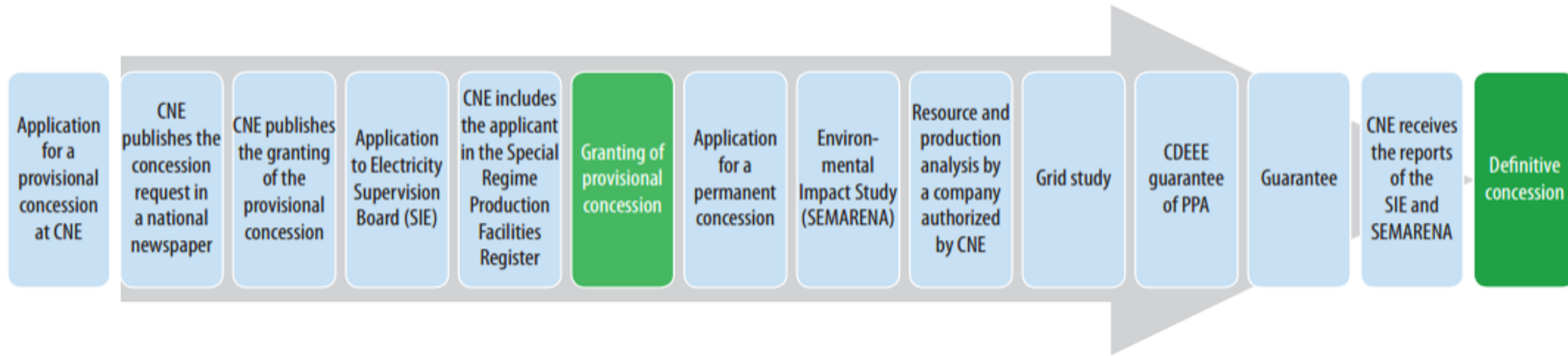
What policy instruments can mitigate/eliminate/transfer this risk?

Liberalisation and **introduction of competition** into domestic financial sector; reforms to **introduce and facilitate new types of finance** (e.g., crowdfunding, peer-to-peer lending).

What financial/fiscal instruments can mitigate/eliminate/transfer this risk?

**Public loans, guarantees and/or equity** to mini-grid operators to address capital scarcity.

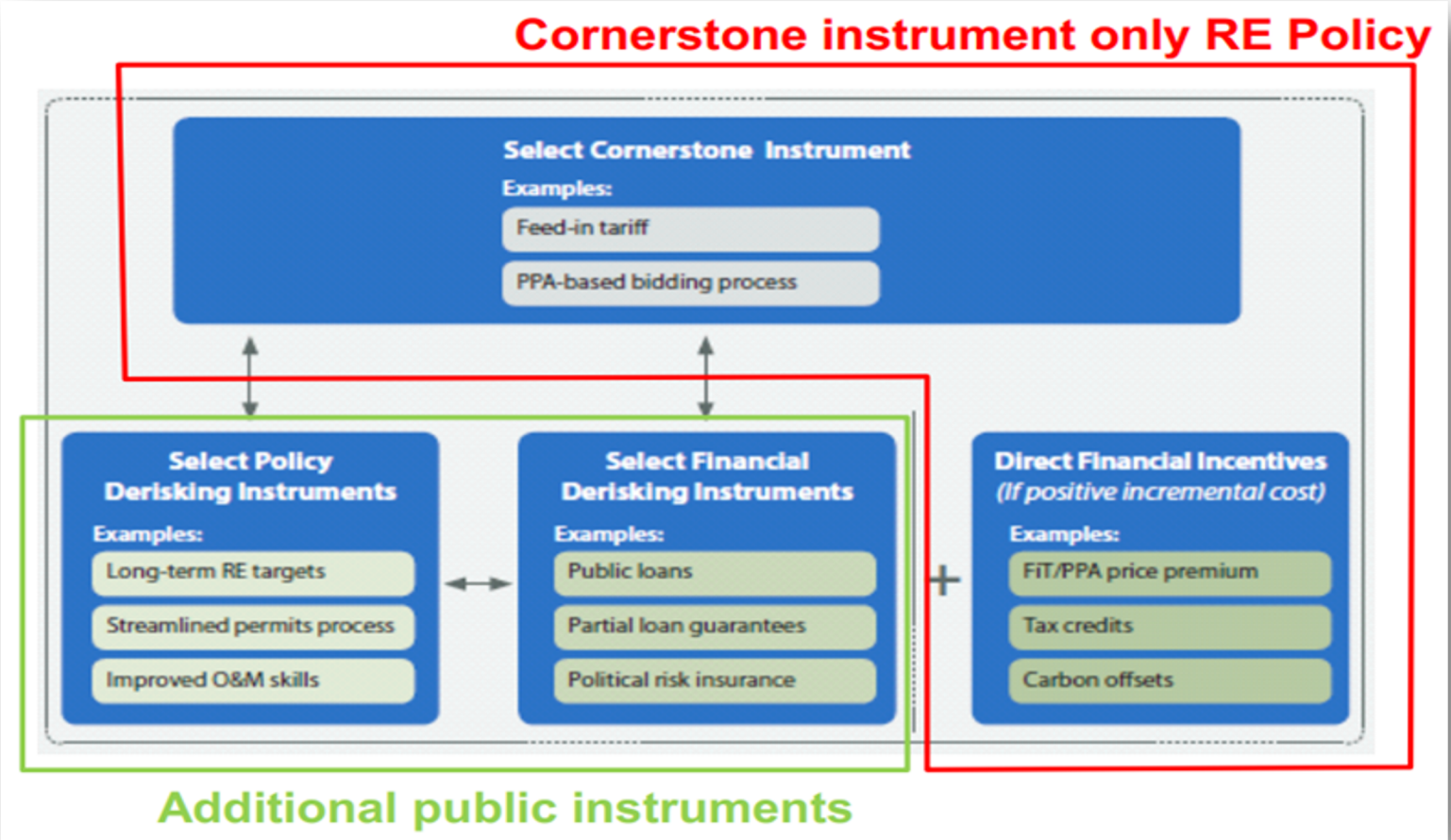
# Step 3. Administrative effectiveness. Streamlining the permitting process



## Solutions

- Streamline process and requirements
- Create one-window stop

# Step 3. Designing the right 'policy mix'



## **Step 3. Group discussion.**

### **How to create a supportive policy environment?**

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#### **Instructions**

- Same groups
- Select a (different) rapporteur
- Time available:

#### **Questions**

- What policy/financial de-risking measures could address the three top risks/barriers identified in your previous discussion?
- Which of these measures can be implemented at the sub-national / local levels?

### **Step 3. Group discussion.**

How to create a supportive policy environment?

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# Step 3. What can local governments do?

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## Key levers:

- Policy design and implementation - policy and financial de-risking measures
- Convening power
- Advocacy at the national level

**Long-term targets and strategies**

**Capacity development of local workforce**

**Sensitisation of local financial institutions**

**Donor outreach and coordination**

**Seeking financing from global funds**

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# Thank you!

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