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Innovative mechanisms for financing renewable energy projects in North Africa

Expert Group Meeting

Aide – mémoire

**3-5 October 2012
Tunis, Tunisia**

Context and rationale

1. The development of renewable energy (RE) in the world comes as part of the efforts aiming to fight against climate change (control of greenhouse emissions), to strengthen energy security and sustainable development. The combination of several factors such as energy demand driven upward by the fast growth of emerging countries, the volatility of oil prices, the impacts of climate change and the recent incidents causing environmental disasters (i.e. Fukushima, oil spill in 2011 in the Gulf of Mexico) have led many countries to undertake reforms for greater diversification of their energy mix.
2. Investments in the RE (excluding hydropower) continue to grow despite a difficult economic and financial climate. Reports on the global situation of RE in 2011 and 2012, published by the REN21¹ Network, have indicated that global investment in renewable energy in 2010 had already reached a record level of \$ 211 billion, meaning 1/3 more than in 2009 (\$ 160 billion) and 5 times more than in 2004. These investments are estimated to amount to \$ 257 billion in 2011. The drivers of such expansion are China, the United-States, Germany, Italy and India. Today, China is the world's leading investor in the renewable energy sector. Hence, the installed capacities for wind power have experienced significant growth in recent years (with an installed total capacity in late 2011 that meets 2-3% of the world power consumption). And the year 2011 was characterized by strong solar energy performance (PV and CSP). Renewable energy accounted for more than 25% of global electricity production capacity, and provided approximately 20.3% of world electricity.
3. These investments were mostly driven by policy incentives and lower equipment costs, particularly with regard to wind and PV modules. However, despite progress made, renewable energy production cost remains high; this applies especially to the solar thermodynamics sector because of its great complexity. Unlike fossil fuels, renewable energy has a cost structure in which initial investment is very high, while operating costs are quite low.
4. In North Africa, although still marginal up till now, the share of renewable energy sources in the energy mix is likely to increase substantially, in terms of strategic targets and adopted ambitious programs. Related investments will demand significant funding due to initial investment costs required for the technologies concerned (including wind, solar thermal and photovoltaic). This will result in a higher electricity price for both the economy and the consumers. Furthermore, in order for the region to fully utilize its RE potential, R & D capacities in this sector should be significantly improved, and training strengthened.
5. Funding required to meet the additional investment costs involved in R & D and training, cannot be raised without contributions from the private sector and national and international financial institutions. However, in today's financially unstable context, increasing prudential ratios led financial actors to reduce their financial risk-taking and tighten the requirements of bank financing. Therefore, innovative and suitable solutions are increasingly needed, and should be developed by focusing on the establishment of effective public-private partnerships.
6. In this context, it is important that countries should clearly specify their priorities and put in place a transparent framework of incentives to provide the necessary visibility and encourage private operators, who consider the return on investment too long and therefore too risky, to invest in the sector. To achieve this, it is important to study the issues of energy pricing (essential to give visibility and encourage private investment) and the gradual reduction of oil subsidies in favor of renewable energy, while taking into account countries specificities and constraints.

¹ REN21: Renewable 2011 Global Status Report, July 2011.

Worldwide, countries have used a diverse set of devices to promote development of meaningful capacities in the area of renewable energy. Further analysis of the advantages and disadvantages of these financial devices will provide useful lessons for countries in the region so as to improve their efforts in this area. Experiences within the European Union (namely in Spain, Germany and France), in Asia (China, Japan and South Korea) and in the United-States will be particularly interesting to investigate.

7. International and regional financial institutions (eg: WB, ADB, FDA, EIB, KFW, Spanish Cooperation, etc.) are showing an increasing interest in the development of this new sector worldwide, and in North Africa in particular. But access to the opportunities offered by the various funds, facilities and other existing mechanisms means developing projects that are “bankable”. But unfortunately there are very few of them today. The Clean Development Mechanism (CDM), despite a slight progress in the region, is still under-utilized, considering existing opportunities. The same applies to new instruments related to the mitigation of climate change as NAMAs (Nationally Appropriate Mitigation Actions), which could be an opportunity to implement new funding systems.

8. Finally, current initiatives to promote regional integration of electricity markets within the AMU and with the European Union (particularly through the Mediterranean Solar Plan and Desertec initiatives), offer prospects for increasing investment that will enhance the interconnections and create a Maghreb electricity market.

9. To support efforts made at a regional level, the Office for North Africa of the United Nations Economic Commission for Africa launched in 2011 a Project on innovative financing mechanisms for renewable energy in North Africa. This two-year project is part of the initiatives undertaken by member countries to strengthen energy security, improve socio-economic conditions, promote local development and address climate change (through reducing emissions of greenhouse gases).

10. In this context, and taking into account the recommendations of the project’s first expert meeting held in Rabat, Morocco (12-13 January 2012), the Office has conducted a study on innovative mechanisms for financing renewable energy projects. This study assessed all constraints relating to the financing of projects (at both central and decentralized levels), and suggests a number of innovative financing mechanisms, best adapted to the specificities and objectives of the region and its member countries, in particular with regard to integrated local development. The study led to the preparation of a Compendium of best practices. Additionally, the study comes also as a response to the concerns of and recommendations by the Middle East and North Africa Renewable Energy Conference (MENAREC 5, Marrakech, 15-16 May 2012) regarding the specific topic of funding.

11. Furthermore, this study complies also with the recommendations of the UN Conference on Sustainable Development (Rio+20) on financing. Indeed, the final conference document entitled: “The Future we want”, highlights the need to identify innovative financing sources as well as new forms of partnerships, so as to increase the mobilization of additional and predictable resources in favor of sustainable development.

12. In order to share the results of the study with key players in the energy sector and broaden awareness of the Compendium of good practices, the ECA’s Office for North Africa is organizing an expert group meeting in Tunis (Tunisia), October 3-5th 2012.

Objectives of the expert group meeting

13. The main objective of the meeting is to introduce and supplement the key results of the study on innovative mechanisms for financing renewable energy projects. Based on the results of the study conducted by the ECA and the contributions of experts, the meeting should help to better clarify the objectives, the obstacles and the potential options for financing renewable energy projects in North Africa.

The specific objectives of the meeting are intended to:

- ✓ Analyze issues / key factors related to the financing of renewable energy;
- ✓ Share successful experiences in financing development projects of renewable energy;
- ✓ Promote a broader consultation between public actors, private operators, the banking sector, financial institutions and development partners involved in the field;
- ✓ Provide recommendations for the adoption of innovative financial instruments that are best suited to individual countries, based on the best practices identified by the study, the experiences presented and the discussions that will take place.

Participants

14. The meeting will gather experts from North African countries, representatives of national, regional and international organizations, representatives from regional projects, as well as from the banking and financial institutions, the private sector, representatives of the United Nations system as well as development partners.

Workshop Format

15. The proceedings of the Expert group meeting workshop will be conducted in plenary meetings during three days and will be structured around six thematic sessions and one final session for the adoption of the recommendations. .

Session 1: Understanding financial issues: needs analysis, typology and financing constraints

Funding requirements for the development of RE projects are very high and can only be met by developing partnerships involving key actors. The State should, for instance, increase the proportion of the budget allocated to public funding for investments in the area of infrastructure, R & D and training; engage strong regulatory reforms; supplement the existing financial and fiscal arrangements; put in place financing mechanisms and adequate partnerships; and strengthen accompanying measures to assist various actors and stakeholders. This session will be used to introduce the broader questions of financing in the current and future context (prospects) for the development of RE in North Africa. It will highlight constraints and measures taken or that are underway to overcome these constraints. Analysis

will consider specific features related to the size of projects (production costs of small and medium-size projects are still very high) and to their main objective (example: access to energy or reducing emissions and sustainable management of natural resources).

Session 2: Overview of existing funding opportunities

Governments play a leading role in financing renewable energy projects and in the creation of a conducive environment for the involvement of all stakeholders. Their responsibility is to set up institutional frameworks, policies and legislative resources and to promote models for sharing costs and risks. The sustained development of RE projects depends on diversifying funding sources and improving partnership between stakeholders. In this context, international financial institutions also play key roles through the creation of new facilities (the WB Clean Technology Fund, ADB, FDA, EU ...). Carbon finance is also a tool to catalyze investment in renewable energy.

This session will enable participants to take stock of / and share the latest information on the strategy of institutional investors and on funding opportunities through examining different kinds of existing facilities and financial mechanisms (National Funds, Investment Funds, financing lines, PPP, CDM, NAMAs...). It will also consider obstacles (financial, expertise, institutional capacity...) which currently limit the use of existing carbon finance in North Africa. It will ultimately analyze how these obstacles could be removed and access to these mechanisms improved.

Session 3: How to promote private sector involvement in renewable energy lending?

The participation from the domestic and international private sector is crucial for financing investments. Today, very few projects are funded by the private sector in the region. It implies the establishment of a suitable environment for investors through: a clear and transparent legal framework that promotes competitiveness and allows RE power plants access to the grid, financial and fiscal incentives, agreements for the energy purchase (an encouraging pricing policy is a powerful lever for promoting private investment), and Public Private Partnership (PPP) mechanisms.

Based on the study results and various presentations, this session will, , analyze the position of the private sector energy operators; study their constraints but also their successful experiences, in order to formulate guidelines aiming to remove barriers and create necessary conditions in order to attract investors and promote SMEs, SMIs and SMBs.

Session 4: Bank funding of RE projects: Current situation and constraints

Banks have a significant role to play in supporting the financing of SMEs through the development of adequate financial products

This session aims to analyze how banks accompany project developers, what are the specific solutions and financial arrangements put in place for large and small scale projects, and to identify constraints met. Its final purpose is to identify the best ways and means to improve the participation of banks.

Session 5: International benchmarking results and proposal for innovative financing tools

This session aims to present financial tools and new forms of partnerships that have been developed in a number of countries. Its purpose is also to identify best practices for the benefit of North African countries. .

Session 6: Promote knowledge and experience sharing

This session will be dedicated to the presentation of the new knowledge sharing electronic platform developed by the ECA. It will be an opportunity to promote the renewable energy community of experts created in May 2012.

Final Session: Main recommendations and Closing

The last session will be devoted to the consideration and adoption of the meeting's key recommendations.

Expected results

16. The meeting's expected results are:

- A deeper knowledge of the key players of funding needs, constraints and possible solutions ;
- Sensitisation on the important role of the private sector and partnerships in investment financing;
- The identification of innovative financing options that are most adequate for countries, including those which could promote the development of a regional market;
- Recommendations and concrete guidelines in order to remove financial barriers and implement the options agreed upon by the meeting.

Deliverables

17. At the conclusion of the workshop, the following deliverables will be compiled and disseminated:

- The workshop report which will include the main conclusions and recommendations;
- Press releases;
- The final report of the study on innovative financing mechanisms;
- The Compendium of Best Practices.

Documentation and working language

18. The working document (summary of the study) and the workshop program will be shared with participants in due time. The proceedings of the workshop will be held in French and English, with simultaneous interpretation in both languages.

Venue & date of the meeting

19. The meeting will convene on October 3-5th 2012 in Tunis, Tunisia.

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