

United Nations Framework Convention on Climate Change 22nd Conference of Parties (UNFCCC COP 22)

Africa GreenCo Concept Note For High Level Panel in the Africa Pavilion On Attracting sustainable investments in the power sector

Venue: Africa Pavilion Salle 1

Submitter Name: Ana Hajduka

Organization: Africa GreenCo/The Rockefeller Foundation

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Email: ana.hajduka@africagreenco.com

I. Context

Over 600m Africans currently have no access to electricity and the need for affordable, reliable and sustainable energy - particularly in a part of the world seriously affected by climate change - is imperative. The African Development Bank estimates that universal access to electricity in Africa by 2025 requires an additional \$40-70bn annual investment in the sector. Financial support for new generation currently depends on the public sector, but the scale of the challenge makes this unsustainable. On the other hand, counterparty risk renders the alternative - private sector finance - both complex and expensive.

II. Background

The global deployment of renewable energy is increasing, creating a virtuous circle that is driving a global renewable energy revolution - which has so far resulted in over 50% of capacity additions in recent years coming from renewable sources. Sub-Saharan Africa is likely to be at the heart of this global shift, harnessing it will transform Africa's economies with genuinely sustainable and inclusive growth.

New technology, coupled with structural innovation, can unravel the paradox of a continent being so rich in renewable energy resources, and yet suffering a chronic energy deficit - an unhealthy paradigm that finally looks to be consigned to history.

One does not need to look far to see the potential: McKinsey & Company in their Brighter Africa report estimate that hydropower potential is about 350GW, geothermal potential is 10GW, 109GW of wind potential and more than 8 terrawattsof solar capacity!

However, as mentioned by Mr Adesina, the President of AfDB, during his recent launch of the New Deal on Energy for Africa, **"we must unlock Africa's energy potential -**

both conventional and renewable - as Africa cannot power its economy with potential."

III. Challenges and Opportunities

Challenges

No one has successfully addressed the issue of creditworthiness of energy offtakers and the lack of a viable power market to sell production, both of which present serious obstacles to increasing the much needed investment in new generation capacity.

Current development efforts focus on the financial instruments required to compensate for lack of offtaker creditworthiness and the lack of a viable power market. These are the proverbial sticking plaster, and do not address the underlying structural and market weaknesses that make private sector investment in infrastructure so challenging. In order to access the necessary capital, new structures need to be developed to create lasting, scalable changes in how power markets operate.

Opportunities

Over the past few years, the equity returns achievable by developers of energy and infrastructure projects in developed markets have fallen dramatically, particularly in the renewable energy sector where state subsidies have been progressively withdrawn. There is now a deep pool of international capital looking for investment opportunities with appropriate risk-adjusted returns but the majority of these potential investors still view a long-term investment in the African power sector as a highly risky venture. One aspect of this is the substantial "at risk" time and cost involved in project development, another is the difficulty faced in "banking" a long term power purchaser agreement with an uncreditworthy counterparty. This problem is exacerbated by increased capital adequacy requirements reducing the availability of long term debt.

An innovative solution to this problem is proposed by Africa GreenCo, which proposes the introduction of a principal in the market to address the core issue of creditworthiness of offtakers and the lack of a viable power market to sell electricity production. The envisioned entity is an ambitious attempt to attract the capital required to meet Africa's energy needs and help liquefy and develop the power pools energy market in sub-Saharan Africa.

Current weak financial position of utilities and limited choice of an alternate buyer in case of utility default deters private capital. An intermediary aggregator between buyers and sellers can help attract sustainable investments in the power sector on the strength of a multi-buyer model. Its role as a financially sustainable intermediary offtaker and power trading company can also stimulate regional electricity trading and facilitate more efficient use of available and new resources by optimising them on a regional basis.

Most independent power projects in sub-Saharan Africa are currently structured on a bilateral (single buyer / single seller) basis. Interposing a single creditworthy counterparty between multiple buyers and sellers within regional power

pools, should improve efficiency and reduce the risk profile of the projects. It is argued that such an intermediary would 'crowd in' private investment by making power generation finance what it should be: an accessible, low risk endeavour.

Africa GreenCo would act as intermediary offtaker only and would not manage the physical transmission and distribution of energy. It would not own any of the grid infrastructure or seek to replace existing utilities. Rather than replacing existing structures, it complements them, and can further act as a bridge to any future energy regional market liberalization and energy trade integration.

Africa GreenCo aims to learn from, and where possible replicate, the dynamics of more advanced power markets, in particular building on the experience of the Power Trading Corporation of India (PTC India) and replicating some of the innovative financial structuring behind Morocco's MASEN. PTC India was also set up in order to act as a credit risk mitigating intermediary offtaker for privately-financed regional power generators. In the process, it catalysed the entire Indian regional power sector trading market.

IV. Proposed Program (90 minutes)

Moderation by Simon Currie, Global Head of Energy Norton Rose Fulbright

5 mins	Introduction Welcome and context by Mamadou Biteye – Head of Africa The Rockefeller Foundation
15 mins	Presentation on Africa Green Co Ana Hajduka Founder & CEO
40mins	<p>Panel Discussion Panelists (in alphabetical order):</p> <p>Abyd Karmali, Head of Climate Finance Bank of America Andrew Herscowitz, Power Africa Coordinator Christopher Knowles, Head of the Climate Change Division – European Investment Bank Felice Zaccheo, Head of Unit, European Commission, Directorate-General for International Cooperation and Development Sustainable Energy and Climate Change Gurdeep Singh, Chairman and Managing Director NTPC (Indian National Thermal Power Corporation Limited) Kevin Urama, Senior Advisor to President Adesina – AfDB Markus Faschina – KfW Senior Energy Project Manager (Morocco) Mr Michael Mulasikwanda - Department of Energy (Ministry of Energy and Water Development) Zambia Said Mouline, Head of Public Private Partnership for UN Climate Change COP22</p> <p>Key Questions to be discussed:</p> <p>What are the key obstacles to private investment in energy projects in sub-Saharan Africa? What innovative structures have already been deployed and the role of AfDB's New Deal on Energy for Africa. Are such structures replicable to achieve the scale required? What are the key hurdles to implementing structural change? Does Africa GreenCo represent a feasible solution to unlocking new sources of capital?</p>
20 mins	Exchange with high level audience
5 mins	Closing Remarks by Mamadou Biteye