



Keynote Address by the Deputy Minister of Energy of the Republic of South Africa, Ms. B Thomson, MP at the Clean Energy Technology and Financing option for SADC (COP17)

Discussions on Renewable Energy and Plans and Strategies

15:30 – 17:30, 03 December 2011

Programme Director;
Our international Guests and speakers;
Representatives of various international and local institutions;
Officials from the various Government Departments;
Honoured Guests;
Ladies and Gentlemen.

I am honoured to address you this afternoon on such an important topic so relevant to the COP17/CMP7 deliberation- financing of renewable energy projects in the SADC region in particular but more importantly Africa and the rest of the developing countries. Africa is richly endowed with natural resources especially minerals and energy minerals as well as clean energy potential of which only a very small portion is currently exploited. The region has sizable scope for a transformational energy access scale-up, with significant economic, development, and climate benefits.

President Jacob Zuma in his speech highlighted some of the resources that Africa has and SADC region in particular. For instance the Grand Inga in the Democratic Republic of Congo has the potential to generate 40 000 MW of hydroelectricity. Once realized,

this will become one of the largest projects in the world and has potential to change the access to electricity in the region. In the Kingdom of Lesotho there is substantial wind capacity that can produce electricity to not only meet the needs for the country but generate excess for export in the region. Mozambique, Zambia and Angola have also hydro potential which is untapped. All these projects are ideas until they are reduced to projects that can be executed. It is therefore important to have financial resources dedicated to financing the projects. Such financial packages should focus on various aspects of the projects including funding of feasibility studies.

Ladies and Gentlemen, in one of the technical papers prepared for the recently held African Energy Ministers, it was noted that it is important to have financial resources dedicated to supporting Africa's low-carbon energy development agenda that can play a considerable role in developing key projects in a timely manner. The paper further notes that many projects rarely progress beyond the feasibility study stage, remaining undeveloped or indefinitely stalled. This is often the result of insufficient access to financing for project preparation.

Governments are typically not in a position to advance resources or borrow money for project preparation and private sponsors are unwilling to take the significant risks involved in sinking large sums of money up front. Existing donor project preparation facilities are difficult to access, have different eligibility priorities and are rarely able to provide grants of more than \$1–10 million.

The Inga 3 hydroelectric project in the Democratic Republic of Congo is an example of an important transformational project in need of project preparation financing. Projected to bring 4,300 MW of power online, the project only represents a small portion of the Congo River's 40,000 MW of hydropower potential at the site. It is imperative that action be taken now, lest the project become permanently stalled, leaving millions waiting in the dark.

One of the largest bottlenecks for transformational projects such as hydropower is the high upfront capital requirement, including high preparation costs. For instance, it is estimated that the Inga 3 project need in excess of 100 million.

Beside high upfront costs, energy projects in Africa and SADC included also lacks sufficient access to energy project financing sources. This is mainly due to private sector investment financing gaps in energy in Africa driven by unfavorable investment climate. Investors lack confidence in the absence of a reliable investment climate due to various perceived investment risks. These include limited access to finance, inadequate supply of infrastructure, tax regulation and rates, and an insufficiently skilled workforce with requisite technical skills. The energy sector in Africa needs to improve its investment climate in order to provide certainty to investors to ensure that the perceived risks can be minimised.

Besides the traditional barriers to financing, the power sector in Africa is particularly prone to high perceived risk and high transaction costs that may arise from a range of issues. Energy projects face comparatively tougher upfront funding gaps than do many other infrastructure projects because investors lack confidence in long-term expectations on secure revenue streams. High investment risk may also result in undervalued assets, leaving reduced financial incentives for the investor. Some of these perceived risks include non-performance of contractual obligations, regulatory risk, capital-intensive technology choices, procurement problems and expropriations.

It is also important that political leaders and institutions should establish appropriate enabling environments in order to facilitate private sector investment. This matter was also raised in the African energy Minister Conference held in Johannesburg recently. Energy Ministers note the lack of policy harmonisation within Africa and also regionally as a deterrent to investment in the energy sector. It is critical that the policy framework

in the region is conducive to investment in the energy sector and the clean energy in particular.

Ladies and Gentlemen, The region needs to preparer feasibility studies and ensure that they have clean energy bankable projects. This should be done through the regional power pools and also driven by individual countries in the case of projects that are manageable. Given the funding gaps, it is also important for international communities and organisation to develop new instruments that can enhance investment in the clean energy sector particularly renewable energy. International organizations can play an important role improving the investment climate by expanding their traditional concessional financing function to include risk mitigation, [technical assistance] capacity building and selective finance [for transmission]. For example, by enabling project developers to meet industry and international standards in project preparation, establishing benchmarks for policy formation, and facilitating open cross-party engagement, [international institutions] can help increase the probability of positive returns and thereby increase investment attractiveness.

Innovative financial products such as partial risk and partial credit guarantees, green bonds, or climate- and carbon-linked supply-side support instruments can significantly lower financing costs and enhance the bankability of projects. Guarantees from multilateral banks such as the World Bank Group have proven successful at leveraging substantial investment for various climate financing projects, including both public sector and private-participant projects

New innovative instruments are being added to the energy financing toolkit. They can play an important role in providing additional incentives toward meeting the revenue requirements of investors. Ultimately, new instruments need to address several specific risks: capacity building, investment risk, and guaranteed returns. Regulatory risk support is also important. A few of the new funding initiatives such as the Energy Plus initiative have already started taking shape to support the green growth sector.

Such initiatives will enable the developing countries and SADC in particular to ddevelop the basis for implementable arrangements to provide financial instruments and

resources to support an ambitious development and deployment of renewables in the SADC region and the rest of and these must be subject to demonstration of value for money and results. This may include, *inter alia*, grant payments, payments-for-results, low cost loans, insurance and other risk mitigation instruments, mutually agreed between partners and the South African Government, in consultation with all relevant government departments and agencies.

Programme Director, as the region, we come a long in terms of joint efforts on bettering the energy landscape in our countries. Just to name but a few, the SADC Protocol on Energy of 1996, the SADC Cooperation Policy and Strategy of 1996, the SADC Energy Activity Action Plan, the establishment of the SADC Biofuels Task Force, the Programme for Basic Energy and Conservation in Southern Africa (well known as ProBEC), and most recently the SADC Renewable Energy Strategy and Action Plan that is under development, are all living examples of what the region's energy related aspirations are.

Without singling out the work done on biofuels in the region, SADC Member States remain indebted to the German Chamber of Commerce in South Africa for commissioning a consultancy study to assess the feasibility for the production of biofuels in the SADC region. No words can describe the extent of our gratitude for this sterling work especially given that it assisted many Member States to leap frog some of the steps in developing their biofuels sectors. All the above regional initiatives, Ladies and Gentlemen, are a manifestation of the SADC Member States' resolve to improve the energy access situation of their energy poor citizenry.

The funding mechanisms should support SADC in effectively implementing its renewables strategy through technical assistance and sharing of experience from partner's own roll-outs of renewables as part of industrial development strategies, and of developing financing solutions for low carbon development. The paper I referred to earlier on also states that Africa contributes less than 4% of global CO₂ emissions, but it

is most vulnerable and least prepared continent to deal with the impacts of climate change. Climate change will threaten food and energy security due to an increase in temperature, extreme events, and changes in rainfall.

About 560 million people do not have access to modern energy in Sub-Saharan Africa and energy poverty is hindering development in Sub-Saharan countries and is a barrier to the successful achievement of the Millennium Development Goals. It is important that clean energy development in SADC be pursued but the financing of this should be private public partnership as well as soft loans from industrialized communities. The funding mechanism need to be innovative to accommodate the different dynamics in the region.

Ladies and Gentlemen, you may not be aware that the region is now on course in developing its strategy and action plan which will enable Member States to tap into their abundant renewable energy resources, thanks to the financial and technical assistance received from the Ministry for Foreign Affairs of Finland.

It is the SADC Member States' overall goal that through this Renewable Energy Strategy and Action Plan, in spite of being in the works, the following benefits will accrue even to the SADC population that has remained on the periphery of the modern energy economy:

- Security of energy supply to stimulate economic growth in the SADC region;
- Energy access for economic development and poverty reduction and meeting some of the Millennium Development Goals;
- Augmenting energy supply through deployment of renewable energy to meet the challenges of sustainable energy security and energy access; and
- Minimize the impact of climate change and its effects on economic growth requiring development of both mitigation and adaptation measures that will ensure sustainable energy supply and utilization.

Having said all that pertains to the commercialisation of the regions' renewable energy sector I also want to mention that working together as the SADC family, all the aforementioned benefits are achievable, whereupon the lives of our destitute members of our region will be greatly bettered.

As SADC Member States we have remained the least modernised in terms of energy provision, and this status quo can no longer be maintained. We now need to be the architects of our energy future by ensuring that going forward all energy debates about us are shaped and guided by us in a manner that directly responds to the needs of our communities. We are unquestionably the ones best placed to be in control of our destiny.

I thank you.