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Renewable energy needs guarantees for investors

By Charlotte Mathews

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The slow pace with which renewable energy projects have been rolled out across Africa may prove to be an advantage in a few years. As they catch up, African countries could benefit from technological developments and falling costs of wind and solar power.

Norman Ndaba, Power and Utilities Sector Leader at global financial advisory firm Ernst & Young, says telecommunications developments in Africa may be an indicator of how renewable energy will evolve. In the 1980s and early 1990s fixed-line telephony was prohibitively expensive to establish in most African countries outside SA. Then cellular technology developed rapidly and cellular phones became widely accessible in Africa.

"Let's hope developments in renewable energy technology will also bring the costs down so we can leapfrog the technological divide," Ndaba says.

According to the 2014 Global Status Report for Renewable Energy, compiled by the Renewable Energy Policy Network for the 21st Century, renewable energy provided 19% of global energy in 2012 and its share continued to rise in 2013.

Figures for electricity access in Africa vary between 30% and 40%. But even in SA, with 85% electricity access, it is difficult to supply remote and poor households with power from the main grid. Renewables can help address this need.

Yet investment in renewable power in Africa and the Middle East last year was only $9bn, down from $10,4bn in 2012, the Global Status Report says. This is just a quarter of the amount invested in the US. Of the total invested in renewables in Africa, $4,9bn (over half) was spent in SA. Kenya was the second-largest market, at $249m, followed by Mauritius and Burkina Faso.

Africa needs some tariff guarantees

Nevertheless, the sector is growing fast. The International Energy Agency forecasts in its "2014 World Energy Outlook" that Africa will spend about $7bn a year between 2014 and 2020 on renewable energy, a big increase on the $2bn a year spent between 2000 and 2013.

"The shift of renewable energy generation and investment away from mature markets in developed countries can mainly be attributed to the recognition of the increasingly important role renewable energy plays in providing access to modern energy services in developing and emerging economies," says Tralac researcher Willemien Viljoen.

"This has led to a big increase in domestic support policies, access to financing, transfer of advanced technologies and the identification of rural energy markets in developing countries as significant business opportunities," he says.

Jannie Retief, Chief Executive of Cookhouse Wind Farm, says 15 years ago renewable energy in the developed world, especially Europe, was strongly supported by governments and offered lucrative feed-in tariffs.

Clear policies required

After the 2008 global market crisis, opportunities cooled in the developed world and developers began looking elsewhere. But Africa is not yet offering investors adequate returns to justify the perceived risk.

"Clear, 20-year-long guaranteed feed-in tariffs or similar are required to attract investors and developers in the renewable energy space," Retief says. "Though SA kicked off renewable energy developments in 2010, other African countries were not able to offer acceptable guaranteed power purchase agreements," he adds.

Ndaba says a market for renewable energy requires industrial growth and economic and political stability. Governments need a legal framework that allows for different types of energy. This has been achieved in countries like SA, Kenya and Morocco.

"But it is a long, hard slog," Ndaba says. "It has taken three years in SA and the renewables producers have only just started to put energy into the grid."

Numerous funding institutions either focus on renewables projects across Africa or include them within a broader mandate to invest in infrastructure.

But Retief says though there are enough projects and funding available, the returns have become too tight.

"This is because of the decreasing tariffs brought about by the bidding process in SA. I foresee that more and more developers and investors will venture into the rest of Africa to achieve the returns required. But most African countries don't offer the guaranteed tariff structure," he adds.

Source: Financial Mail via I-Net Bridge