

**MENA-OECD Business Council:
Task Force on Energy and Infrastructure**

**WORKING PAPER
PRESENTING
THE PRIVATE SECTOR'S VIEW ON**

Spurring Growth of Renewable Energies in MENA through Private-Sector Investment

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I. INTRODUCTION: MAKING THE CASE FOR INVESTING IN RENEWABLE ENERGIES IN THE MENA REGION

General context

Most of the world's economies are currently facing changing and conflicting energy needs which, if not addressed, could directly threaten future economic growth: this is the rise of energy demand and the gradual depletion of non-renewable energy resources. In addition, concerns about man-induced climate change caused by the increase of the concentration of greenhouse gases in the atmosphere add to the pressure for change. The International Energy Agency's (IEA) World Energy Outlook 2010 (WEO) forecast that global primary energy demand will increase by 36% between 2008 and 2035¹ while electricity demand is expected to grow by 2.2% each year up to 2035². At the same time, total global spending on oil and gas imports is forecast to more than double from USD 1.2 trillion in 2010 to USD 2.6 trillion in 2035. Energy-related CO₂ emissions are expected to rise from 29.3 Giga tonnes (Gt) in 2008 to 35.4 Gt in 2035, consistent with the current expected increase in world average temperatures of over 3.5°C. These expected developments will have significant consequences for the ability of governments to sustain current economic growth trajectories unless all economies, both developed and emerging, begin to undertake fundamental policy changes which place a greater emphasis on "green" or sustainable development.

Encouraging particular "green" foreign direct investments (FDI) in emerging markets, including in the Middle East and North Africa (MENA), must form part of the answer to this. For the purpose of our discussion, "green" FDI is taken to mean two types of investments: green industries and services; and any environmental process which contributes to the reduction of the sources or the enhancement of the mitigation of greenhouse gases. In order to limit the general increase in the global temperature to below the 2°C goal established by the Copenhagen Accords, in December 2009,³ the IEA projects that it will be necessary to invest a total of USD 11.6 trillion between 2010 and 2030⁴ in renewable energy technologies (both public and private spending) worldwide.

Here, "renewable energy" is defined as energy generated from naturally replenished sources. According to the IEA, this includes biomass and waste, geothermal, hydropower, solar photovoltaic, solar power, wind and marine energy, principally for electricity and heat generation. For the purpose of the MENA-OECD Task Force on Energy and Infrastructure's work, it was decided to focus initially on solar and wind power.

Investment needs into low-carbon energy forms for electricity production are estimated at USD 5.7 trillion (in year-2009 dollars) over the period 2010-2035⁵. Simultaneously, world electricity

¹ IEA World Energy Outlook 2010: p 77

² IEA World Energy Outlook 2010: p 77

³ Bearing in mind that the Copenhagen Accords are not binding

⁴ IEA World Energy Outlook 2010: p 404

⁵ IEA World Energy Outlook 2010: p 275

generation from renewable energy sources is expected to increase from 3 800 terawatt-hour (TWh) to 11 200 TWh and its share in total electricity generation is forecast to rise from 19% to almost one-third.⁶

In light of these considerable challenges, all energy options need to be considered in order to improve energy security and promote a greener growth model according to each country's specific energy needs. That said, investing in renewable and low-carbon emitting energies is not only a necessity, but should also be seen as an opportunity to develop sustainable economic growth. At the same time, this offers considerable opportunities for emerging markets to attract foreign expertise and investors through public-private partnerships which will help promote know-how, technology transfers and employment.

The situation in MENA region

According to the WEO, in 2008 the MENA region's share of renewable energy was just 1% of total electricity generation⁷. This is particularly low compared to other regions, as is the level of MENA's annual investment in renewable energy assets. However, many economies are starting to address the question of energy policy deficiencies and are making plans to increase their share of power generated from renewable energies. Furthermore, some of the energy forms where technological advances have been the strongest and hence have seen some cost reductions, such as wind and solar power, are well adapted to the geographical and climatic conditions in the MENA region.

Different driving forces behind the spread of "green" technologies, such as the European Union (EU) and the United Nations (UN) are looking into a variety of green projects in the MENA region in order to capitalise on its huge potential capacity, not least with regard to solar power. Accordingly, the Task Force is part of a broader trend which eventually should be able to stimulate growing interest for renewable in the region. Some of the potential projects identified to date by different actors in the MENA region are summarised in the Box below:⁸ In addition, the Secretariat of the Union for the Mediterranean is officially "tasked to explore the feasibility, development and creation of a Mediterranean Solar Plan" in the Paris Declaration of July 2008.

⁶ IEA World Energy Outlook 2010: p 281

⁷ IEA World Energy Outlook 2010: p 281

⁸.Union for the Mediterranean: Projects for the future Barcelona Euromed Forum

Box 1. Suggested energy projects in the Mediterranean

1. Installation of renewable electricity generation capacities in the Mediterranean Countries mainly in the areas of wind, solar thermal and photovoltaic energy. At present, wind-driven power generation seems closer to the breakeven point and the projections give it greater capacity for growth. Photovoltaic energy has major potential in the rural environment and in large and medium sized decentralised installations.
2. A joint MENA-EU project to construct high capacity high voltage direct current transmitters: Without the development of interconnection infrastructures between the two sides of the Mediterranean, it will not be possible to transmit electricity generated from the MENA region to the EU.
3. Improvement of the electricity grid in the MENA region and especially of intra-regional interconnections: The improvement of infrastructures based on renewable energies technologies may require specific projects to improve the national power lines and the sub-regional interconnections.
4. The expansion of natural gas capacities in MENA to supplement renewable energies: The gradual introduction of generation by renewable installations can require greater capacities of support based on natural gas, which will be able to supply the demand peaks.
5. Desalination plant powered by renewable energies: Desalination technology has been developed in order to face the demands arising from a growing water deficit in the southern Mediterranean and in the Gulf. Given that desalination remains highly energy intensive, the possibility of using renewable energies to feed the water treatment plants should be considered.

Source : Union for the Mediterranean

Particular advantages to governments of promoting investment in renewable energies in MENA

Apart from gradually reducing dependence on oil and other fossil fuels, and lowering carbon emissions, there are other advantages for governments of investing in renewable energy in the MENA region. Many of these are long term and will reap benefits for national governments for decades to come.

The spread of the use of renewable energies can help stimulate economic growth in the MENA region by improving the rural electrification, by contributing to modernising their energy network, by fostering R&D and by increasing exports. For countries without domestic hydrocarbon resources, it would also contribute to a reduction of their economic and energy vulnerability.

Power generating installations, whether solar or wind, need to be regularly maintained and cleaned for the duration of their life-cycle. This period generally stretches to 20 or more years. If the local population is involved in the operation, management and maintenance of such an installation (wind or solar), this should lead to the creation of sustainable, local, non-transferable jobs in the local community.

To ensure that the local population has the adequate skills for operation and maintenance, a private investor can enter into a partnership with the local or national authority to provide training and skills transfers. The ongoing need to continue improving local installations and the manufacturing of parts locally will also help stimulate research and development activities.

The arrival of a private renewable energy installation, in particular in local and remote areas, can also help spur education through the increase in the need for better local skills. At the same time, via public-private partnerships, investors would have incentives to contribute to improving the basic skills of the local population, beginning for example with literacy.

In addition, remote areas that are difficult to access through the main power grid can have access to electricity through smaller, local installations. This can help local communities leap-frog stages in their development through access to modern communication means and better facilities, including for local schools.

Some obstacles constraining investment in the sector in MENA

Nonetheless, and despite the obvious advantages to governments in the MENA region, several obstacles to private investment in the sector remain. These include the general cost of setting up and running renewable energy installations, the problem of storage of energy, transport (and general infrastructure issues). Ideally, to maximise the regional benefit of renewable energy, grids should be transnational and markets should be fully open to entry for investors. Some of these obstacles, and possible solutions, are discussed in this paper.

Goals of the Task Force on Energy and Infrastructure

The MENA-OECD Task Force on Energy and Infrastructure (henceforth the Task Force) of private sector representatives, representing companies from both the OECD and MENA, has been working to propose solutions to overcome some of the obstacles mentioned above and to clearly inform policy makers of the needs of the private sector in order to facilitate investment in the renewable energy sector. This is because, in order to meet the massive investment needs in the renewable energy sector in the MENA region, an appropriate policy environment will have to be in place to attract private investment. This paper aims to highlight the view from private investors regarding the key conditions that will be necessary to drive future investment growth in the renewable energy sector in the MENA region.

The Task Force is convinced that through an enhanced public-private dialogue in the MENA region, and with co-operation around renewable energy schemes, a long-term partnership between foreign investors and the public sector can be created which will be of mutual benefit. The Task Force aspires to create a win-win situation for both investors and policy-makers where the building of a favourable regulatory framework which generates a competitive environment for investors will not only lead to further business opportunities for foreign companies but will also enhance the prospects for economic growth and the development of new core competencies and industries in the MENA region.

This paper focuses on some of the key elements needed to promote investment in the renewable energy sector from the point of view of private-sector investors with first-hand experience of working in the MENA region. First, the general conditions for a sound investment climate are discussed. Second, the paper looks at the need for adequate environment and energy policies, including specific policies to upgrade and adapt the grid. Third, the paper discussed what incentives, if any, are appropriate for private investors, and finally, the paper discusses some of the other elements required and desired to help facilitate investment in the renewable energy sector.

II. CONDITIONS NEEDED TO ESTABLISH A NATIONAL FRAMEWORK TO PROMOTE PRIVATE INVESTMENT IN RENEWABLE ENERGIES

The MENA-OECD Task Force on Energy and Infrastructure (the Task Force) recognises that a certain number of conditions with regard to the general policy framework and institutional set up of a

country's legal system need to be met in order to attract private investment in general, and investment in new technologies, such as renewable energy, in particular. This holds especially true for the economies of the MENA region where the institutional and regular frameworks have on occasion been found wanting.

General policy framework

1. Policies to facilitate investment in the renewable energy sector in the MENA region, including those pertaining to domestic markets and competition, would benefit from being inserted in and made fully part of the authorities' economic development goals.
2. Governments should ensure the enactment and enforcement of rule of law and due process in an environment where the legal system is transparent, accountable, predictable and easily accessible, and where law and order are promoted via due process. Systems should also promote individual business and property rights and freedom of entry and exit.
3. From the business perspective, policies should look to the long-term with a view to providing more stability and predictability for private sector investors.
4. A public-private dialogue should be formalised. Business as well as other key stakeholders should be thoroughly consulted when forming national energy policies.
5. In the Middle East and North Africa in particular, the use and strong promotion of public-private partnerships (PPPs) will be crucial for boosting energy investment, particularly in important emerging technologies such as carbon capture and storage (CCS); or to develop smart grids (see below).
6. Governments should also work to make energy policies more efficient and thus reduce burdensome administration (for example, by shortening approval procedures for grid development).

Competition law and policy

7. Competition laws need to be in place and to be properly enforced. A fully-developed competition framework includes the creation of an independent Competition Authority, with powers of investigation and sanction. Competition laws should be fully enforced, allowing for free market access to the domestic power and energy markets.
8. To achieve a competitive business environment in the MENA region means that in many cases, implementing new laws, or overhauling existing competition laws will be necessary in order to establish a level playing-field for all companies in the sector. This was one of the key findings of the work carried out by the team behind the MENA-OECD Investment Programme's Business Climate Development Strategy in Egypt during 2010.
9. In many MENA economies, state-owned enterprises (SOEs) still have a dominant position and benefit from excessive advantages over their national and international private sector competitors.

Trade policy

10. As a rule, markets should have few barriers to entry. Any barriers should be primarily defined by an enterprise's competitive and/or financial capabilities. Governments in the MENA region

should adopt a more liberal approach to its domestic markets in order to determine solutions and prices to meet and facilitate consumer, supplier, investor or government objectives.

Other elements of the regulatory framework

11. Other aspects to consider include a **well-developed regulatory framework for the electricity sector**; including the creation of an independent regulator. A well-regulated framework will also include the set-up of clear, transparent and effective administrative processes.
12. **Institutional framework**: to facilitate the start-up process, the monitoring and the follow-up of renewable energy investment in the MENA region, it is important that licenses and permits can be processed smoothly. The Energy Task Force encourages the governments of the MENA region to set up **dedicated Energy One-Stop Shops** to help process applications and act as facilitators and interface between the investor and the relevant government institutions.
13. The licensing process should also include clear, transparent and well-established **appeals procedures** with a clearly designated, central authority in charge. This could form part of the dedicated Energy One-Stop Shops.
14. National treatment of investors, clear performance requirements (and in full accordance with WTO TRIMs); equal access to land, and full recognition and protection of intellectual property rights are additional necessary prerequisites for creating a stimulating investment climate.

III. GENERAL ENERGY AND ENVIRONMENT POLICY FRAMEWORK

International commitments and domestic environment policies

MENA governments need to put in place national environment policies. These should be derived from the international and regional conventions, agreements and commitments that the governments adhered to such as Kyoto, Copenhagen or the UNFCCC. National Environment Policies should incorporate the country's international commitments, and should of course not infringe WTO rules (for instance by levying tariffs etc). Economies should take into account that clear objectives on renewable energies would help investors anticipate the constraints and opportunities of the local market, thereby further stimulating investment by reducing uncertainty. Environmental policies that are developed should ensure to keep include the following imperatives:

1. National regulations should outline specific national and local environmental concerns. These should be formulated in a clear strategy.
2. Specific environmental targets and objectives should be established, along with key measures to reach those targets.
3. An independent environment watchdog should be created. It should have the power to “name and shame”, if not the power to enforce legislation and to sanction those in breach.

4. New environmental policies should aim to maximise energy efficiency and minimise greenhouse gas emissions. They should also specifically spell out the aim of utilising renewable energy resources in MENA economies, similar to the environmental policies of OECD countries.
5. The national institutional framework should be established in such a way as to avoid institutional proliferation which tends to generate bureaucratic obstacles in many MENA economies and hinders efficient implementation, monitoring and follow-up of policies. Dedicated One-Stop Shops, mentioned under point II.12 above, would provide a possible answer to this.
6. The governments should oversee that the national environment policy is implemented and a process of monitoring should be put in place.

A national energy policy

In addition to a general, well-established legal framework which guarantees the rule of law and the protection of private property, and a national environment policy which complies with international conventions, the Task Force also points to the need for specific energy policies to be defined, adopted, communicated and implemented by governments. This process should take place in full consultation with the private sector and civil society.

1. The Task Force strongly invites MENA governments to adopt a **National Energy Policy**. Such a policy should clearly define targets for domestic consumption and production of electricity, specified in megawatt terms, in close collaboration with the private sector (representing the broad range of energy types).
2. Targets should be set for the short, medium and long term, and should include clearly defined percentage shares of electricity production using renewable energy; these shares in turn should be broken down into the contribution of each specific energy source to the overall target.
3. With regard to the regulation of the electricity market, local production, transmission and distribution should be unbundled.
4. As part of a new national energy policy, the government should establish a "technology roadmap" which clearly maps out the country's existing energy infrastructure; identifies gaps, both with regard to energy sources, and the necessary infrastructure (from production to end-user) and spells out the steps needed to take to reach the defined energy target.
5. This would include a "wind map" specifying the strength of the wind in metres/second at strategic areas and a "solar map" detailing the solar radiation per square metre. Policy makers should note that it takes around one year to carry out these studies.

Adapting the grid

6. In addition to national energy production targets, the MENA government's national energy policy should include detailed provisions for adapting the national grid to the needs of renewable energy. The establishment of new flexible grids is necessary to integrate renewable energy into the national energy mix.
7. Currently, the electric grid across most economies in the MENA region is tailored for the use of conventional, consistent power sources. The challenge with several renewable energies is their reliance on variable natural phenomena, such as wind and sunlight, which results in variable voltage input.

8. Updates to the grid must therefore be able to accommodate inconsistent energy inputs, and it will be important to line up conventional base-load generating capacity and more peak power plants for use during periods of reduced inputs from renewable energy sources.
9. At the same time, affordable and effective power storage mechanisms should be employed to capture any excess production. Ensuring that the grid has capacity to accommodate the varying input from renewable energies will require significant restructuring, improved forecasting of energy production, and mathematical models to predict grid behaviour with higher integration of renewable energies.
10. In terms of connecting grids to renewable energy sources, such as offshore wind farms, tidal energy locations or solar energy sites, investment will be necessary for the transmission and distribution lines from these often geographically-dispersed sites. Investment will also be needed to upgrade the existing grids with the necessary hi-tech devices and sensors to be able to respond to variable inputs from renewable energy sources.
11. There is also likely to be a rise in small-scale energy production from renewable energy sources at local levels, potentially adding thousands of generating sources to electrical grids. Grids must therefore be able to continuously calculate increasingly complex and variable supply and demand to ensure reliable and secure electricity supply on a scalable, real-time and per-need basis.
12. As a result of the computerised and potentially vulnerable nature of a smart grid, the potential for technical disruption, or even sabotage, should also be addressed.
13. MENA governments should integrate into their energy policy a cost-model to account for the necessary upgrade of the national grid. This can be carried out to the advantage of the government through Public-Private Partnerships (PPP).

IV. POLICIES REGARDING INCENTIVES TO ENCOURAGE INVESTMENT IN RENEWABLE ENERGY

As a guiding principle, the Task Force believes that open markets represent the best framework for an efficient deployment of energy resources, investment flows and sustainable growth. However, appropriate incentives, if put in place in the right policy framework, can promote efficient use of energy resources and the market penetration of promising technologies that are in early stages of development.

Temporary and targeted economic incentives can help support the shift to new energy sources which are in early stages of commercialisation and where affordability is a key barrier, or where existing infrastructures make it difficult to introduce new energy sources.

A few general points on the use of economic incentives

1. The Task Force highlights the fact that generally speaking incentives are always distortive. Any use of incentives should therefore be clearly defined, completely transparent, narrowly targeted, and strictly time-bound.

2. The presence of incentives furthermore raises the issue of predictability. Government economic support can be withdrawn or altered according to budget concerns, which clouds the outlook for investors. If incentives or other forms of economic support are in use, they should be clearly stated in investment contracts.
3. **Incentives should never be permanent.** They can be used in order to launch innovation and move technology towards market competitiveness, but should be transitional and decreasing over time.
4. Transparency of incentives underpins credibility and fair treatment. Visible proportionality between the size of the incentive and the projected benefits will maintain pressure to minimise waste.
5. Clear rules and a uniform and non-discriminatory application of these rules are important to maintain or restore a level playing field for businesses around the world.
6. Any support schemes or incentives used should be linked to the previously mentioned national energy policy targets. Rules for the use of incentives should be adjusted to be proportionate to these targets. This requires upstream cost-benefit analysis of the use of specific incentives.
7. In order to attract bank finance for energy schemes, governments need to carry out long-term cost-benefit analyses of incentive schemes, including of support to energy prices. Banks rely on forecasts for future cash-flows when making investment decisions; incentive schemes are generally seen as an obstacle to reliable long-term visibility.
8. Tax incentives, no matter their nature, are generally distrusted by investors, as they tend to have distortive effects on the market and offer less predictability than other economic support schemes.

Situations where incentives may be acceptable in the short term

9. A better alternative to tax incentives is a clear, transparent and simplified tax system, with only few corporate tax rates.
10. Tax incentives may however be useful when they are used for the purpose of encouraging energy efficiency. Sharing of best practices from OECD and other governments could be of benefit to policy makers in the MENA region in this respect. Tax incentives can also be useful to encourage (both private and corporate) end-users to develop a more efficient use of energy, or to switch to alternative energy uses.
11. Some examples of incentives that are well-received by investors are exemptions to import tariffs and other duty exemptions. This is useful for the construction of green-field sites (for importing necessary equipment/technology) and where the necessary raw materials for production are not present locally.
12. Generally speaking, investors consider that the use of targeted economic support is more transparent than a variety of tax exemptions, depreciation rules or other incentive schemes.
13. **Transparency** of government subsidies underpins credibility and fair treatment, including a uniform and non-discriminatory application of these rules. Visible proportionality between the size of the incentive and the projected benefits will keep the pressure to continue minimising waste.

The need for long-term contracts with defined feed-in tariffs

14. In order to secure investor interest, the Task Force emphasises that the contract between the government and the investor needs to lock in feed-in tariff levels (see Box 1).

Box 2. Feed-in Tariffs

A feed-in tariff (FiT) is a policy mechanism designed to facilitate the adoption of renewable energy sources and to help accelerate the move towards grid parity for private investors.

According to most definitions, it typically includes three key provisions

- guaranteed grid access,
- long-term contracts for the electricity produced,
- purchase prices that are based on the cost of renewable energy generation and tend towards grid parity.

Setting up a feed-in tariff implies that an obligation is imposed on regional or national electric grid utilities to buy renewable electricity (electricity generated from renewable sources, such as solar power, wind power, wave and tidal power, biomass, hydropower and geothermal power), from all eligible participants.

A key element of this scheme is the fact that prices become cost-based. This enables diverse projects (wind, solar, etc.) to be developed, and allows investors to obtain a reasonable return on renewable energy investments. This principle was first explained in Germany's 2000 RES Act:

“The compensation rates...have been determined by means of scientific studies, subject to the provision that the rates identified should make it possible for an installation – when managed efficiently – to be operated cost-effectively, based on the use of state-of-the-art technology and depending on the renewable energy sources naturally available in a given geographical environment.” (RES Act 2000, Explanatory Memorandum A)⁹

As a result, the tariff granted may differ among various sources of power generation, installation place, projects of different sizes and, also by the type of technology employed (solar, wind, geothermal, etc.). The tariffs should usually be designed in such a way as to so gradually fall over time as technology changes and improved energy savings and smart grids lead to cost reductions. This approach would be consistent with keeping the payment levels in line with actual generation costs over time.

In addition to the cost aspect of the prices, FIT contracts typically guarantees the purchase of the electricity generated from renewable energy sources for the long duration (typically 15–25 years)¹⁰.

As of end-2009, feed-in tariff policies had been enacted in 63 jurisdictions around the world, including in Australia, Austria, Belgium, Brazil, Canada, China, Cyprus, the Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iran, Republic of Ireland, Israel, Italy, the Republic of Korea, Lithuania, Luxembourg, the Netherlands, Portugal, South Africa, Spain, Sweden, Switzerland, Turkey and in some states in the United States. The policy is gaining momentum in other states such as China, India and Mongolia.

⁹ Germany, Renewable Energy Sources Act (RES Act) (2000). “Act on Granting Priority to Renewable Energy Sources,” Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), Accessed May 15, 2009 at: <http://www.wind-works.org/FeedLaws/Germany/GermanEEG2000.pdf>

¹⁰ Lipp, J. (2007) “Lessons for effective renewable electricity policy from Denmark, Germany and the United Kingdom,” Energy Policy, Volume 35, Issue 11, pp.5481-5495.

15. As stated in Box 1, these off-take prices must be guaranteed for long-term periods, typically for the duration of the project, but at least for 15-20 years, as appropriate.
16. Contracts between the producer and the power purchaser (the government or the local energy incumbent) must be private law contracts (not public law), so that they cannot be altered by sudden policy reversals or a change in a ruling majority in the national government institutions.

Other important points regarding financing and incentives

17. To raise private financing for renewable energy projects in the MENA region, especially from banks (investment or commercial banks), it is useful if a national energy project also gains support from international financing organisations, such as the IFC, the EBRD, the EIB, export funds, export credit agencies, or that the project obtains financial guarantees. Such involvement from key developing and/or lending institutions signals the strength and longevity of the project and serves as an incentive to attract private funding.
18. PPP schemes are also perceived as attractive by private investors.
19. Credits for training: training and educational programs should be regarded as an area of mutual interest to both investors and host economies, given the fact that a better quality of human capital is necessary to manage and extend renewable energy systems (for instance to upgrade grids). Within PPP schemes, private funding of academic programmes dedicated to renewable energies would help securing the profitability and the durability of investments in the MENA region, while fostering the appropriation of renewable energy strategies by local populations.
20. Similarly, preferential or facilitated access to land, which remains a major obstacle in many MENA economies, would also act as a spur for investment in renewable energy.

V. FACILITATION

The Task Force emphasises that a certain number of other factors would be desirable in order to facilitate and increase the attractiveness of investment in renewable energies in the MENA region.

Among the points raised, it was felt that the following would not only facilitate the investment process but would also prepare the ground for longer-term sustainable development of a country's energy infrastructure and overall economy.

1. Adequate local human resources: there is often a lack of the necessary skilled labour force in the host country. There is a potential to manufacture parts of the equipment needed for the installations of either solar or wind energy plants (and other installations), but often there is an insufficient skills base locally.
2. Low skills also mean a low local capacity for maintenance of installations. This can be helped through targeted training programmes, with the cost and/or equipment and facilities shared between the investor and the government.

3. Once new "smart" grids have been developed and the infrastructure has been put in place, this will require operating and managing in order for the MENA economies to benefit from their renewable energy sources. This implies that the local work force will need to acquire significant skills and technical knowhow through human capital-oriented investments, both in the training of existing technicians or engineers and in the education of future technicians or engineers. Public-private partnerships could pave the way for robust local courses of study in the area of renewable energy.
4. Specific training incentives could be granted to investors.
5. Local manufacturing base: linked to the point above, there is a lack of a local manufacturing base in many MENA economies. Such a local manufacturing base which would otherwise be able to underpin the development and transfer of skills and technology.
6. Having a network of local SMEs that could feed in to the renewable energy sector would have a positive effect on local employment, while also helping to generate links with and facilitate the development of the local SMEs. At the same time this would go some way to reduce import costs. This could pave the way for a network of business linkages programmes.
7. Service providers: the establishment of new service providers should be encouraged by MENA governments. This could be in the form of government incentives for enterprises or preferential policies, as has been the case in many OECD countries.
8. Grids adapted for renewable energy: the local grid needs to be adapted to the special needs from the use of renewable energy sources. The use of "smart-grid" technology would be a distinct advantage for the local power industry (see points developed under Chapter III).
9. Public-private dialogue: to facilitate the social acceptance of using the new technologies, the national and local authorities need to enter into a dialogue with all stakeholders, especially at the local community level. The government has role as educator; explaining the benefits of using renewable energy sources, and the impact this will have on the local community and environment. There are many common misconceptions regarding renewable energy (for instance with regard to the environmental impact of wind turbines) and the government has a key role to play as facilitator in the context. To maximise social acceptance, the government (both national and local) must also consult with all stakeholders involved, including the local power incumbent, local enterprises and villages, in order to promote the switch to new energy forms.
10. Targeted investment promotion: the creation of dedicated One-Stop Shops as discussed previously would also help focus the MENA governments' investment promotion efforts to attract investment specifically to the renewable energy sector. Again, such an institution would facilitate investment by granting permits, authorisation and the giving and administration of incentives.

CONCLUSION

Reshaping energy supply towards greener technology is crucial for the MENA region, yet it raises enormous challenges for most economies as they cannot address them alone. The private sector can be a key agent of this energy policy change. In view of the magnitude of investments needed over the next decades, a greater reliance on private-sector investments, for instance through public-private partnerships, should underpin national policies on renewable energies.

Spurring private investment in renewable energies through a targeted investment policy is possible when policy makers take into account the constraints and pressures faced by the private sector. To support private investment in renewable energies and ensure profitability and positive returns for the investors, governments in the MENA region should strive to achieve a win-win strategy with the private sector. This is feasible through the pursuit of a public-private dialogue and the implementation of policies on three different levels.

First, governments should aim to create a competitive business environment by establishing a predictable, accountable and transparent investment climate with transparent and properly enforced competition laws, protection of property (including intellectual property), and greater openness of the markets. National legal frameworks should also guarantee the rule of law and the protection of private and intellectual property.

Second, MENA governments should determine a clear energy policy which takes account of international agreements and commitments. A National Energy Policy which clearly apportions the share of electricity generation to be derived from renewable sources, the kind and share of each source should be clearly defined in megawatt terms and inserted into the government's medium- and long-term energy strategy. A detailed road-map with all the steps needed to reach those targets would help coordinate and structure private investment in the sector. MENA governments should also take into account the need to adapt and upgrade the national grid to meet the specific needs of renewable energy.

Last, an appropriate use of incentives -- if temporary, clearly defined, transparent, and non-discriminatory -- can be a useful tool to promote the efficient use of energy resources. Part of this policy should be the establishment of long-term contracts with clearly defined feed-in tariffs.

In short, transparent and multi-pronged policy should be implemented by MENA economies in full dialogue and coordination with the private sector to undertake this major policy shift in a cost-effective manner. With the global policy-making focus shifting to “green” growth and concerns for energy security and climate change rising -- not to mention the opportunities for profit and growth -- there is currently a window of opportunity for both governments and investors. Now is the time to take action.

APPENDIX

About the MENA-OECD Business Council and the Task Force on Energy and Infrastructure

The MENA-OECD Business Council's Task Force on Energy and Infrastructure (the "Task Force") was launched in April 2010 as a sub-sector of the MENA-OECD Business Council, to work specifically on issues related to renewable energy and other infrastructure questions in the MENA region.

The Business Council brings together private businesses from both the MENA region and from the OECD to represent the private sector's view within the general work of the MENA-OECD Investment Programme.

The Business Council was formally launched at the MENA-OECD Ministerial Meeting in Marrakech, Morocco, in November 2009, with a mandate supported by the Marrakech Declaration, signed by all participating governments. In a joint Business Statement, prepared with the Business and Industry Advisory Committee to the OECD (BIAC), some of the work recommended for the Business Council includes the promotion of green growth; the encouragement of public-private partnerships, especially for infrastructure projects; trust-building between the private and the public sector; the favouring of private investment in state-of-the-art infrastructure for citizens; among other goals.

The creation of the Task Force is one way to respond to this mandate, by attempting to carry out focused work and present it to the policy makers of the region.

The MENA-OECD Business Council and its Task Forces aim to:

- Support governments' efforts to improve the business environment in the MENA region in order to favour sustainable economic growth;
- Promote responsible business conduct and corporate governance initiatives by sharing best practices and create sectoral common approaches;
- Support and encourage the exchange of technology and expertise between OECD countries and the MENA region to foster increased innovation, with due protection of intellectual rights.

Thus the purpose of the Business Council is to create a forum for senior business leaders from the MENA region and OECD countries where they can work to formulate policy advocacy to MENA policy makers on issues related to improving the Business Climate. Key means to strengthen this dialogue and proceed with the work include:

- Provide policy makers with recommendations on policy or reform priorities (the present Position Paper is the first example of this work);
- Strengthen the public-private dialogue through high-profile debates between business and policy makers (this will happen at the meeting with Working Group 1 on December 16 2010);

- Generate new business opportunities and foster cross-regional contacts between the regions through the meetings and activities of the Business Council and its Task Forces;
- And foster exchanges of best practices, and learning-by-doing among the members.

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