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

# WORKING PAPER PRESENTING THE PRIVATE SECTOR'S VIEW

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

OECD
BETTER POLICIES FOR BETTER LIVES

MENA-OECD INVESTMENT PROGRAMME

# Agenda

Introduction:  Making the case for investing in rewnewable energies in the MENA Region

General conditions needed to establish a framework to promote private investment

General policy framework related to energy and the environment

Polices regarding incentives to encourage investment in renewable energy

Facilitation

# The Case for Renewables in MENA

## The General Context

- Most of the world's economies are currently facing changing and conflicting energy needs which, if not addressed, could threaten economic growth
- The IEA's WEO for 2010 has forecast that primary global energy demand will increase 36% between 2008 and 2034
- Total global spending on oil and gas imports is forecast to more than double from USD 1.2 trillion in 2010 to USD 2.6trillion in 2035
- Investment needs for low-carbon energy electricity production are estimated at USD 5.7 trillion (2009 figures) over the period 2010-2035

## The Situation in MENA

- In 2008 the MENA region's share of renewable energy was just 1% of total electricity generation
- This is particularly low compared to other regions, as is the level of MENA's annual investment
- The OECD Task Force on Energy and Infrastructure is part of a broader trend which should eventually stimulate growing interest for renewables in the region

# The Case for Renewables in MENA

## Advantages to governments of promoting investment in renewable energies in MENA

- The spread of the use of renewables may help stimulate economic growth by:
  - Improving rural electrification and continuing the modernisation of the electrical network
  - Fostering R&D
  - Increasing exports
- The operation, management, and maintenance of a renewable installations can create sustainable, local jobs for periods of 20 years or more.
- This can help spur education and the drive for better skills, particularly in remote areas

## Obstacles constraining investment in the sector in the MENA

- General cost of setting up and running renewable energy installations
- The problem of electrical storage
- Transport and general infrastructure issues
- To maximise the regional benefit of renewable energy, grids should be transnational and markets should be fully open to entry to private investors

# The Case for Renewables in MENA

## The Goals of the OECD Task Force on Energy and Infrastructure

***"To propose solutions to overcome some of the obstacles [to renewable energy investment] and to clearly inform policy makers of the needs of the private sector in order to facilitate investment in the renewable energy sector."***

- To meet the massive need for renewables investment in MENA, an appropriate policy environment will have to be constructed to encourage private investment
- The task force wants:
  - enhanced private-public dialogue
  - long-term partnership between foreign investors and the public sector for mutual benefit
  - a favourable regulatory environment, thus creating a 'win-win' situation for investors and policy makers. This should lead to an increase in core-competencies and industries in MENA countries and enhanced economic growth prospects

# General Conditions Needed to Promote Private Investment

## General policy framework

- Policies to facilitate investment in the renewable energy sector in the MENA region would benefit from being made part of national authorities' economic development goals
- Governments should ensure the enactment and enforcement of the rule of law. Systems should also promote individual business and property rights and freedom of entry and exit
- Policies need to be long term from a business perspective, thus providing stability and predictability for private investors
- PPPs are crucial for the promotion of energy investment
- Burdensome administration should be reduced

## Competition law and policy

- Competition law needs to be in place and properly enforced
- In many cases the existing competitive environment needs to be overhauled with a view to creating a level playing field for all
- In many MENA countries SOEs benefit from excessive advantages over their national and international private sector competitors

# General Conditions Needed to Promote Private Investment

## Trade policy

- As a rule markets should have few barriers to entry
- Any barriers should be defined by an enterprise's competitive and/or financial capabilities
- Governments in the MENA should adopt a more liberal approach to markets

## Other elements of the regulatory framework

- MENA countries need to put in place national environmental policies, derived from international and regional conventions, agreements and commitments
- Clear objectives will help encourage private sector investment
- National regulations should outline specific national and local environmental concerns
- Specific environmental targets and objectives should be specified
- An independent environment watchdog should be created
- New environmental policies should aim to maximise energy efficiency
- Bureaucratic obstacles should be avoided

# General Energy Policy Framework

## A national energy policy

- A specific energy policy should be defined, adopted, communicated and implemented by governments. This process should take place in full consultation with the private sector.
- The policy should have clearly defined targets for energy production and consumption
- Targets should be set for the short, medium, and long term
- With regard to the regulation of electricity markets; local production, transmission, and distribution should be unbundled.
- Governments should establish a “technology road map”, which indentifies and highlights gaps in existing infrastructure

## Adapting the grid

- National energy policies should include detailed provisions for adapting the national grid to allow for the integration of renewable sources
- Affordable and effective power storage mechanisms should be employed to capture any excess production and ensure that the varying levels of production associated with renewable energy generation can be accommodated

# Policies Regarding Incentives

## Policies regarding incentives

***"Open markets represent the best framework for an efficient deployment of energy resources, investment flows and sustainable growth. However, appropriate incentives, if put 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"***

- Incentives are always distortive. Therefore they need to be:
  - clearly defined
  - completely transparent
  - narrowly targeted and time bound
- Incentives should never be permanent. They can be used to launch innovation and move technology towards market competitiveness.
- Tax incentives are generally distrusted by investors, as they have distortive effects on the market and offer less predictably than subsidies schemes
- Banks rely on forecasts for future of cashflows when making investment decisions; incentive schemes are generally seen as an obstacle to reliable long term viability
- Generally speaking, investors consider that the use of subsidies a more transparent approach than a variety of tax exemptions, depreciation rules or other incentive schemes.

# Policies Regarding Incentives

## Feed in tariffs

- In order to secure investor interest the contract between the government and the investor needs to lock in feed-in-tariff levels
- Feed in tariffs will typically include three key provisions:
  - guaranteed grid access
  - long-term contracts for the electricity produced
  - purchase prices based on the cost of renewable energy generation
- The establishment of a feed in tariff implies an obligation on regional and national utilities providers to buy renewable energy from existing participants. Usually long time periods are required i.e. 15-20 years
- Prices should be cost based to allow investors to generate a reasonable return
- Germany's 2000 RES Act is a good example of such a scheme
- As of the end of last year tariff policies have been enacted in 63 jurisdictions around the world including:

| | | | |
|---|---|---|---|
| **Australia** | **China** | **Italy** | **Sweden** |
| **Belgium** | **Denmark** | **Republic of Korea** | **Switzerland** |
| **Brazil** | **France** | **The Netherlands** | **Turkey** |
| **Canada** | **Hungary** | **South Africa** | **United States** |

# Facilitation

## Financing and incentives

- To raise private financing, especially from banks, it is useful if an energy project also gains support from international organisations such as:

IFC International Finance Corporation World Bank Group

European Bank for Reconstruction and Development

European Investment Bank

- PPP schemes are also perceived as attractive by private investors
- Training and educational programs should be regarded as an area of mutual interest to both investors and host economies
- Preferential or facilitated access to land, which remains a major obstacle in many MENA economies, would also act as a spur for investment

# Facilitation

**Other factors can also help to facilitate private sector investment**

- Adequate local human resources
- Targeted training programs (in particular to support ongoing maintenance)
- Local manufacturing base
- A network of local SMEs that can feed into the renewable energy sector
- Grids adapted for renewable energy
- Public-private dialogue
  - Government in role as educator (getting local acceptance for the need for renewable schemes)
  - Maximises social acceptance
- Targeted investment promotion

# Conclusions

## Governments cannot act alone

- The obstacles surrounding renewable energy mean that governments cannot address the problems alone
- Private sector investment can underpin national energy policy (which itself should be clear and take into account international agreements and commitments)
- Policy makers need to consider the pressures and constraints felt by private investors
- A competitive business environment needs to be supported by predictable, accountable, and transparent investment climate with clear and properly enforced competition laws, protection of property rights (including intellectual property) and greater openness of markets
- Appropriate use of incentives is important. They should be temporary, clearly defined, transparent and non-discriminatory

***"Transparent and multi-pronged policy should be implemented by MENA economies in full dialogue and coordination with the private sector to undertake a major policy shift in a cost-effective manner. There is currently a window of opportunity for both governments and investors. Now is the time to take action."***