



COP28: World Climate Action Summit Roundtable on Mobilizing Local Savings at Scale to Finance Clean Energy Infrastructure

Organizers: African Development Bank (AfDB)

Date: 2nd December 2023

Time: 15:30 – 17:00 (GMT +4)

Venue: MDB Pavilion (Blue Zone)

Background and Context

Universal and sustainable energy provision is a key priority across Africa. Countries are facing the dual objective of increasing the availability of energy to households and businesses while also decreasing the dependency on fossil fuels by adopting renewable and/or low carbon technologies. This is within the challenging context of a tight fiscal space arising from both the impacts of the covid-19 recovery and of climate change, as well as the macro-economic spillovers of Russia’s invasion of Ukraine which has added a further layer of difficulty to reaching the necessary level of clean energy investment.

At the same time, greenhouse emissions are projected to rise in developing countries due to demographics and energy demand growth. According to the IEA Sustainable Africa Scenario (SAS), transitioning to a clean energy sector implies almost doubling of total capital over 2026-2030 with investment needs projected to average about USD190 billion per year. Most of this investment will need to be in domestic-oriented projects that generate revenue in local currencies. While most African countries are reliant on hard currency debt which provides much-needed scale-up capital, it also exposes developers to considerable currency mismatch and foreign exchange risks that are difficult to hedge, and which can have profound implications for domestic energy costs. Although currency hedging and other options exist, they can be expensive and are lacking for many developing country currencies, particularly at the long tenors, low cost and large scale required to support the needed clean energy investments.

Implication on Energy Consumers

With regards to **FX risks**, the acute problem of currency devaluation remains, as most African domestic currencies, to varying degrees, have systematically declined in value against hard currencies such as the US dollar over an extended length of time. In addition, some African currencies have been prone to significant volatility, particularly in countries that rely on the export of a single commodity as their primary means of generating foreign exchange. **This is problematic because the tariffs for the provision of energy services financed in hard currencies have to be adjusted to reflect the decline in revenue received from customers in local currencies. If the local currency keeps falling in value, then the tariff must keep increasing, which limits the affordability of the service to local consumers and ultimately the sustainability of the project.**

There is therefore a strong case for developing the capacity and capabilities of local financial intermediaries to provide competitively priced local currency term credit to reduce reliance on hard currency financing. Making this case requires taking cognizance of certain factors: Firstly, countries in Africa are at different levels of capital market strength and energy sector development. Secondly, achieving the level of clean energy development under the SAS requires investment across a range of very different technologies – from small-scale access projects to utility-scale power plants or grids. And finally, there are also a vast array of sources of finances, both in terms of instruments or structures and providers. Understanding the relationship between these variables is vital to maximizing investment in clean energy and achieving the development, economic and climate goals of the continent.

Objectives:

This event presents an excellent opportunity to explore the role of local capital markets in mobilizing and allocating savings to fund African energy infrastructure by providing best practice case studies and providing insights for capital providers and project developers. This event aims to:

- Help bridge existing knowledge gaps and broaden market intelligence on the main drivers for building local currency credit and capital markets,
- Stimulate policy discussions that will lead to effective reforms that deepen long-term local currency term credit.
- Showcase AfDB's success in unlocking local currency funding for the financing of energy infrastructure.
- Brainstorm new ideas for sustainable long-term financing of Africa's infrastructure.

Format:

- Opening remarks and context framing by the moderator, Wale Shonibare, Director Energy Financial Solutions, Policy and Regulations, African Development Bank.
- A dynamic and engaging panel conversation with all high-level panelists.
- Targeted questions to match the areas of interest covered by the panelists.

Questions to be addressed during the panel discussion:

- How do we as African countries pool our savings to finance energy infrastructure in a currency or basket of currencies that are sustainable? What are the various solutions?
- What financing instruments have been deployed to encourage more local currency financing; What has worked and what hasn't worked? How can we continue to refine these instruments?
- What policy actions should be introduced by governments to create the enabling environment to facilitate more local currency financing of infrastructure.
- What changes can be made to the global financial architecture to provide sustainable long term financing for Africa?

Expected Outcomes:

- Increased awareness of the the main drivers for establishing well-functioning capital markets that can efficiently mobilize and allocate savings to fund energy infrastructure, building local currency credit and capital markets.
- Identification of policy measures and reforms that can deepen long-term local currency term credit.
- Showcasing of innovative local currency financing solutions that can be deployed to finance energy infrastructure.