NEEDS FROM GOVERNMENTS AND PROJECT DEVELOPERS IN THE CONTEXT OF RISK MITIGATION FOR RENEWABLE ENERGY INVESTMENT IN AFRICA

Prof. Dioha I. J. Director Renewable Energy,
Energy Commission of Nigeria

1.Introduction

Several factors will challenge the successful implementation of planned activities and milestones and may jeopardize the realization of the targets and objectives of the renewable energy.

These potential risk factors include policy and political changes, uncertainties in the energy market, instability in the macroeconomic framework, international shocks, operational risk (inadequate public awareness, human resources and raw materials availability) and risks associated with neglect of infrastructure.

Identification and analysis of these risks will allow stakeholders in the renewable energy economy to factor in these risks, or seek alternative approaches to reaching renewable energy targets and objectives.

Implementation of renewable energy projects require three pre-conditions:

1). Good and stable legislative frame conditions.
2). Easy and transparent permitting procedures.
3). Access to financing. *

If one of the above conditions is weak or not given, the renewable energy project risks failure. The pre-conditions are well met in Germany and Austria and less attention is paid to them in many African countries.

INCENTIVES

Incentives are essential in promoting the development of Renewable Energy (RE) projects and programmes. Being new, the sub-sector faces serious difficulties in penetrating and establishing its place in the energy market; notwithstanding the fact that they could play significant role in meeting energy needs in a sustainable manner. There is need for some economic incentives to encourage its development by government.

The incentives fall under two categories, namely:

i. Financial Incentives

These include subsidies, grants, etc that are targeted mostly at the demand side

ii. Fiscal Incentives

These include tax relief, duty and levy waivers, etc which are targeted mostly at the supply side.

Financial Incentives

(a) Soft Loans

A percentage of the annual loans by special low interest development finance agencies should be reserved for Renewable Energy projects, at interest rate not exceeding 5% p.a.

(b) Subsidies and Grants

Subsidies of up to 30% of initial costs of a RE and EE utilization facility should be granted to communities, enterprises and individuals that embark on such projects. The subsidies should however be in kind, and should be subject to due processing by the responsible administering agency.

Examples may be found in USA, Germany, Thailand, Korea, who offer subsidies that range between 30-50%.

(c) Capacity Development

Free (sponsored) training programme should be provided for interested communities and individuals on RE technologies as business ventures.

INCENTIVES CONT'D

Fiscal Incentives

These packages of incentives are targeted at producers/providers of RE goods and services, such as manufacturers, corporate importers and suppliers, providers of technical services and supports.

(a) Lower Profit Tax

Corporate organizations that are involved in RE business should pay profit tax at 50% of prevailing rate.

(b) Tax Holidays

For new companies active in RE, a tax holiday should be provided for minimum of ten years of operation.

(c) Reduction in Import Duty

Import of materials, components and equipment by bonafide manufacturers of RE devices and components for the manufacture of the said devices and components, should be duty free.

(d)Capital Allowance

Investment Capital Allowance of 20% per year for the first four (4 No.) years and19% in the 5th year, with 1% retained in the books, is to be provided.

(e) Capital Relief

Government should provide interest free capital relief of 50% on the initial investments to genuine manufacturers of renewable energy equipment, devices and systems. The relief is to be provided in kind, in the form of needed facilities for the production activities. An example is Czechoslovakia which provides 30% relief on initial investments for producers of solar water heating systems components.

(f) Waiver of Purchase Taxes

Individual, Corporate or Community consumers of renewable energy systems should benefit from a waiver of initial purchase taxes, e.g. VAT.

(g) Rebates on Income Taxes and Levies: For individuals and corporate bodies who acquire, at their own cost, renewable energy technologies and who are subject to income tax or community levies by government, such taxes or levies should be subject to rebate.

(h) Feed-In- Tariffs: The feed-in tariff (FIT) supports the development of new renewable power generation. FIT requires utilities to purchase renewable electricity from eligible renewable energy generators.

OTHER SPECIFIC RISKS

Policy and Political Risks

Several policy and political risks confront the renewable energy sector. These risks include the following: Outlined policies not adopted. Policy inconsistency, instability and contending interests within Government. Risk of policy implementation short sightedness, Lack of continuity in government policies and Socio-cultural conflicts.

Market Risks

- Massive smuggling, counterfeiting, and dumping of products as well as lack of standardization required for international competitiveness;
- Unfavorable international trade rules; national trade policy stance which is endemically unpredictable, particularly in the application of tariffs and exemptions, transaction costs at ports, customs clearance procedures, and the use of import bans on goods, merchandize, products, equipment and production machinery;
- Weak purchasing power; Inadequate access to investment capital and High initial cost for electricity generation, Poor infrastructure. Macroeconomic factors. Non-implementation of financial incentives, Counterpart funding and Global market risks.

International Development Risks

In an increasingly interdependent world, globalization in the movement of capital, technology, goods and ideas transcend boundaries and subject plans for RE to pressure.

International cooperation risks.

Multi-lateral agencies such as the World Bank, UNDP, ADB as well as bilateral agencies such as USAID have contributed greatly to lifting renewable energy. This constitutes a major risk factor that must be managed to prevent the crumbling of the main pillars for the RE deployment.

Standards and Quality Control Risks

A major constraint to the development of the renewable energy market in many African countries is the poorly established standard and quality control of locally manufactured and imported technologies.

Entry of unqualified people in the field.

The lack strong entrepreneurship in emerging renewable energy businesses, particularly solar PV and improved woodstoves result in people without the relevant professional background to enter the industry.

Research & Development and Environmental risks: Funding for R&D has always been in short supply in Arica for research on futuristic energy systems. Environmental risks include distortion of the environment, human dislocation and resettlement as well as esthetics problems.