Solar energy requires large and long-term financing that is difficult to obtain especially for developing countries. Debt financing is generally available only for periods of five to six years. Banks are also wary of lending in this sector as they lack the experience with renewable technologies that would allow them to assess the risks involved. This results in high costs of financing for renewable sector projects. The cost of borrowing can be significantly higher than in developing countries.

Moreover, renewable energy projects require significant equity finance. This helps them cover the development activities of the project and represents the risk capital invested in a project. Equity investments imply that the investor has an ownership stake in the project. Different equity investors are involved at different stages—for example, venture capital firms are focused on the early stages of the project, and corporate or strategic investors cover the latter stages, including just before an initial public offering.

The small scale of the projects in developing countries is another factor that creates issues when accessing private financing. The initial cost of such projects can be a significant obstacle in its widespread deployment, leaving a limited number of financing institutions that are willing to invest in this market segment. Off-grid solar projects are also an important local power generation for rural areas that are not connected to the grid due to high costs. Such projects are crucial to ensure affordable access to energy. The risks for such decentralised systems are much higher due to the location (for example rural areas for off-grid projects) as well as the target group (low-income populations).

Currency risk is also higher in developing countries, especially for currencies that are not traded frequently. There is a need for new innovative financing structures that help provide a risk-adjusted return that is attractive to investors by covering early-stage risks in such projects. This is where multilateral financing institutions such as an SFC can be crucial in helping reduce risk for the private sector and help develop new markets for renewable energy.

PROPOSED MANDATE FOR A SOLAR FINANCE CORPORATION

4