Solar stands in good stead as renewables reinforce value in Africa

The business case for renewable energy investment in Africa has strengthened in recent years, but investment in the power sector is still running far short of requirements, says **Martin Haupts**, Chief Executive Officer of Phanes Group.

Solar energy's contribution to global grids in the last decade has been palpable. Renewable energy accounted for a quarter of the total energy production worldwide in the last 12 months, with solar outgrowing oil, coal and gas combined, as stated in the *Global Trends in Renewable Energy Investment 2018* report. This trend is set to continue, too, with net fossil fuel generating capacity declining in 2017, and solar soaring consistently for the last 24 months.

The global outlook is positive, but growth markets like Africa still have serious power concerns. In sub-Saharan Africa, more than 600m people don't have access to electricity. Additionally, many rural areas of Africa are too far detached from national grids, making power supply way more complex. And as the population rises and the economy expands, the demand for clean, affordable and reliable energy will continue to grow.

The main challenge is developing clean and bankable power solutions to satisfy the unique needs of Africa's communities.

Fortunately, the business case for renewable energy investment in these areas has strengthened in recent years. PV solar plants have become an interesting financial investment for DFIs, green banks, sovereign wealth funds, pension funds, and others. Annual rates of return on investment in the renewable sector are between 6.6% and 10.1%, as stated by EY. In Africa, these figures are still comfortably above 10%, reaching the mid-teens.

Recognising this, development banks have increasingly been supporting renewables more. The African Development Bank (AfDB) reached a milestone in 2017, investing 100% of available funding in renewable energy – a dramatic increase from 2007, when it invested just 14%.

The global solar community needs to maintain this momentum by working closer together.

Compression of margins

From an equity perspective, growing competitiveness is certainly a challenge. There is a compression of margins in the PPA space. On the one hand there are lower margins from the sale of electricity but in many ways equity still has the same cost as two or three years ago. If the trend to commoditise persists, the fulfillment of the continent's energy infrastructure needs will be jeopardised.

Predictions from the World Bank suggest necessary investment to drive the power sector between 2015 and 2040 in Africa should range between $33bn and $63bn annually. For the past decade, it hasn't been breaching the $12bn mark, which is causing poor quality, low reliability and high prices, costing African economies an average of 2.1% of their GDP.

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Powering Africa will be a joint effort – with government authorities working more closely with the private sector to increase capacity across the board.

These conversations must be frank and frequent. Events like the Africa Energy Forum play a major role in facilitating these, which is why they remain an important platform to our industry.

MARTIN HAUPTS
Chief Executive Officer,
Phanes Group

Martin Haupts founded Phanes Group in 2012, giving the firm a distinct renewable energy and emerging market focus. He has orchestrated the company's transition from an advisory-focused firm to an integrated solar developer and investment manager with a transaction volume exceeding $250m. He has led key deals for Phanes Group, including the largest distributed PV solar project in the Middle East and the largest PV solar project in the Caribbean. He has also secured a substantial project portfolio in Nigeria and major deals in many other sub-Saharan markets.

With 17 years in investment banking and infrastructure finance, Martin has a wealth of experience in structuring and in-depth expertise in the cleantech industry and Islamic Finance.

Martin holds an MBA from INSEAD, France/Singapore, and a Master's in Corporate Law from the University of Hamburg, Germany.