

Can Islamic finance solve Kazakhstan's renewable energy growth problems?



KAZAKHSTAN

By Shaimerden Chikanayev

As the Central Asia's largest and richest country, Kazakhstan has a lot of natural advantages for the development of renewables, including 3,000 hours of solar radiation a year and the average annual wind speed of nine meters per second in some parts of the country.

Moreover, Kazakhstan seems to have strong political will to attract investments in renewable energy projects as demonstrated by Kazakhstan's official general policy. The government of Kazakhstan, for instance, made an official commitment to increase the share of renewable energy in domestic electricity generation to 30% by 2030 and 50% by 2050.

Finally, Kazakhstan generally has, with some caveats discussed in the following, a good legal and institutional framework for the development of renewables. Kazakhstan has switched from the fixed feed-in tariff support system to the mechanism of auctions to develop renewable sources of energy from the 1st January 2018. The auction system will make the process of granting renewable energy projects open and transparent and will give impetus to the implementation of the most cost-effective projects. The first auction is envisaged to take place this May 2018.

Despite all of the aforementioned advantages, the largest wind and solar projects developed in Kazakhstan so far (eg the Yereymentau wind farm in north-central Kazakhstan and the Burnoye solar power plant in southern Kazakhstan) have been financed by Kazakh state companies and international development banks.

One may argue, therefore, that until commercial lenders and investors (ie lenders and institutional investors which prioritize returns above all) stay away from Kazakhstan, there is no assurance that renewable energy in Kazakhstan will really take off and that all declarations of the government of Kazakhstan made so far about its commitment to develop renewables are just smoke and mirrors.

Generally, the renewable energy projects in Kazakhstan are procured on an independent power project model, whereby a government entity (ie a single off-taker) enters into a long-term (15 years) power purchase agreement with a private sector entity to purchase power at a fixed price from the project.

Typically, the investor has a choice to attract debt financing for the implementation of the renewable energy project in Kazakhstan either from Kazakh commercial banks or from international financial institutions and export credit agencies, but in any case the lenders are repaid from the revenue stream generated by the project in the local currency (Kazakhstan tenge).

Kazakh banks are generally not an option as they do not have long-term liquidity and are prohibited to finance on a limited recourse basis, whereas international lenders quite often are reluctant to finance renewables in Kazakhstan because they consider such projects as non-bankable. The following are the key legal obstacles that preclude foreign commercial banks from financing renewable energy projects in Kazakhstan:

1. The creditworthiness of the single off-taker is still questionable.
2. The currency risk is not fully addressed.

Islamic finance, therefore, is certain to be deployed in the renewable energy sector in Kazakhstan; for sponsors, the ability to finance renewable energy projects on an Islamic finance basis allows them to access a considerably greater number of financing sources and attract long-term financing on the profit and loss-sharing principle.

Kazakhstan, therefore, shall try to tap global Islamic finance, the estimated market size of which in 2018 is exceeding US\$2 trillion, for the purposes of, among others, financing and the implementation of infrastructure, including renewable energy projects. ☺

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