

Will rising interest rates crush renewables in Africa?

We've [worried](#) that energy projects in Africa, especially renewables, were at risk from rising interest rates and an increasingly unstable global economy. Privately-financed power projects require either loans at prevailing interest rates or equity with a similar expected hurdle rate. While central banks are raising base rates to respond to inflation, emerging market energy projects pay additional premiums for country risk in addition to normal project risk factors.

The figure below shows how the cost of capital and different capital structures of energy technologies can have a significant impact on the final cost of energy. In short:

- Higher risk markets will pay a lot more for the same project, and
- Higher CapEx technologies (like wind, solar, and storage) are relatively more impacted by changes in capital costs.

The bottom line: Yes, rising global interest rates are crushing renewables in Africa. These pressures [have gotten worse](#) and are already shrinking the [power project pipeline](#). If we want countries to deploy more (and, yes, we do!), public finance to drive down rates and mitigate risk will be needed more than ever.

