Plenary Session V/A:

Financing Options for Renewable Energies

Wednesday, 2 June, 14.00 – 15.30 h

Venue: Plenary Hall IKBB

Internationale Konferenz
für Erneuerbare Energien, Bonn
International Conference
for Renewable Energies, Bonn

renewables 2004

SESSION REPORT

A. The Challenge

Securing finance for renewable energy projects and for energy efficiency is among the greatest challenges in the context of scaling up renewable energy resources. It is closely linked with other enabling conditions such as the adequate policy and regulatory environment. Accessible and affordable financing for energy utilities, enterprises and consumers are essential for the success of renewable energy and energy efficiency. Availability of financing is necessary to buy down high upfront capital costs of renewable energy investments. Consumer credit on reasonable terms is crucial, for example, for household solar PV to be affordable. Investment and working capital are also required for many small and medium-sized companies seeking to develop market chains for renewable energy products and services. Along with ensuring the adequacy of financial resources, appropriate financial instruments are needed (for example long-term debt, equity, risk mitigation, or pre-investment financing). It is key that projects and programs dedicated to the promotion of renewable energy include features that strengthen the income of local populations and long-term cost recovery in order to ensure the sustainability of projects beyond their closure.

B. Highlights from Presentations

Mr. Dipal Barua, Managing Director, Grameen Shakti

Success of Grameen Shakti in the Field of Renewable Energy Sector in Bangladesh

The presentation by Mr. Barua of Grameen Shakti, Bangladesh, highlighted what types of tools and schemes exist that can leverage local finance on a sustainable basis using the example of the solar PV market in Bangladesh. Mr. Barua gave an overview of innovative and affordable financing schemes. The latter are offered to cater for a number of different potential customers in form of specifically designed service packages with the aim of leveraging greater interest by a larger group of customers. Adapted local research can reduce costs of products targeted for specific markets, and good quality insurance systems establish a good reputation for still comparatively costly energy services. It is particularly important to create ownership to ensure proper operation and continued maintenance of modern energy service products. Furthermore not only the training of technicians but also the capacity building of consumers is key for success. In areas with high population density – such as Bangladesh – micro-utilities can also provide lower cost systems. This could be replicated in other countries as long as overhead costs can be maintained at similarly low levels as at Grameen Bank. Mr. Barua also mentioned that combining energy services with nonenergy services can be beneficial. For example, the availability of electricity is needed for the use of contemporary communication equipment, including cellular telephones.

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Ms. Andrea Kulhava, Czech Energy Agency
Emission Reduction Projects in Czech Republic

The presentation of Ms. Kulhava of the Czech Renewable Energy Agency, Czech Republic, highlighted how moving away from small individual pilot projects to targeted umbrella programs. Fully integrated policy plans can make a measurable impact on the scaling up of energy efficiency and renewable energy. This was illustrated by using the case of the Czech carbon finance program, where various departments in the government as well as the private sector cooperate closely within a clearly set-out framework. The case study showed how within the program a larger number of interventions while lowering transaction costs. It will also foster the capacity for implementation in a more targeted way. In order to progress, a "learning by doing" approach is recommended. The example of the carbon finance program in the Czech Republic also shows that all types of financing mechanisms are needed.

Ms. Christine Eibs- Singer, COO of E+Co
Mr. Abeeku Brew-Hammond, Director KITE
E+Co and AREED – A Best Practice in Energy Enterprise Development

The presentation by Ms. Eibs-Singer and Mr. Brew-Hammond showed how the key role that small energy enterprises play in the supply of off-grid solutions to improve access to modern energy services can be fostered through new and innovative business models. Only with the assistance of energy enterprises can new opportunities be identified quickly and translated into investment opportunities on the ground for those parts of the population that are less well off. To assist them, dedicated credit lines have been put in place with lower interest rates. The African Rural Energy Enterprise Development (AREED) model links poverty profiles, energy enterprises options and delivery by small and medium- sized local entrepreneurs, including women netrepreneurs.

Mr. Cayetano Hernández, General Director, IDAE
Financial Formulas for the Take–Off of Renewable Energy Sources

Mr. Cayetano addressed the issue of off-takers of renewable energy resources using the example of IDAE – a Spanish public/private business that promotes energy efficiency and renewable energy resources along the lines of an Energy Service Company (ESCO). IDAE offers third-party finance and technical advice for these activities, which IDAE will finance either in part or in total, and that the customer will reimburse later. In order to do so, a performance contract is agreed upon between IDAE and the industrial, which essentially transfers the risk of the renewable energy or energy efficiency investment to IDAE. IDAE's funds will be replenished through the repayments received from the customers. In the past decade, these types of funds have proven successful in removing financial barriers – not only in Spain but also in Central and Eastern Europe, Asia and northern Africa.

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C. Summary of the Session

Financing can be considered as a cross-cutting issue, which has been referred to in various session of the International Conference for Renewable Energies 2004, and remains a challenge to be solved. If countries are to take full advantage of their renewable energy resources, they need support to overcome financing constraints, improve technical and institutional capacities, improve knowledge, blend instruments (public/private), remove policy and market constraints, blend instruments and regulatory bottlenecks. Securing finance for renewable energy projects and energy efficiency is among the greatest challenges in the context of scaling up renewable energy resources. This applies not only but especially to developing countries.

The presentations and discussions presented in the session provided a clear overview of how the availability of adequate financing provides solutions to financing barriers to renewable energy technologies. Both the issue of how to close the financing gap in order to scale up renewable energy in a meaningful way, and what financial tools can help to address and jump-start renewable energy markets were addressed. The presentations provided for a number of interesting tools to scale up renewable energy. They range from innovative financing and risk sharing models, instruments and financial engineering to putting the regulatory environment in place, to continuous product development and quality control to ways to reduce cost and ensure maintenance.

The question remains, however, of how to close the financial gap for a meaningful renewable energy scale-up. The financing of renewable energy sources has been marked by financing provided for the eradication of energy poverty and with the aim to enhance the environment through donor finance, including the funds from bilaterals, the GEF, and multilateral financing institutions such as the World Bank. To provide financial resources on a sustained basis and in order to substantially scale up renewables, it appears, however, necessary to move to a market-based approach for financing renewable energy. A good point in case is carbon finance – as it is being used in the case of the Czech Republic. Carbon finance, such joint implementation and the clean development mechanism, has been shown to leverage 5 to 6 times its amount. Long term commitments and a clear vision are also needed.