Policy Brief on Renewable Energy Finance

Making the switch to large scale renewable energy (RE) systems will require significant investment with magnitudes in trillions of dollars (IPCC SRREN; IEA WEO). In December 2011, IEA-RETD issued the report '*Strategies To Finance Large-Scale Deployment Of Renewable Energy Projects: An Economic Development And Infrastructure Approach*'. The FINANCE-RE study was commissioned by IEA-RETD to address the key finance challenges related to the large-scale deployment of renewable energy. One of the main conclusions of the report is that **new policy approaches are key to attracting massive flows of capital needed to scale up renewable energy**. On April 17th 2012, a group of nearly 30 representatives from the finance sector and government gathered in London to discuss the report's findings as well as existing and possible new finance policy instruments, and their respective roles in mobilising significant amounts of new capital to the renewable energy sector. The workshop was held to complement the key findings from the study. The study and workshop primarily addressed the role for governments in financing the large-scale deployment of renewable energy.

Main recommendations for governments resulting from the report and the workshop

1. **Putting financing renewables on the policy agenda:** Large-scale financing of RE will not take place without the active involvement of governments. It is recommended that governments put renewable energy financing on their own agenda as a serious matter of attention and action.
2. **Actively approaching investors:** Although capital is available, new funds will not automatically be tapped by the market. Utilities will most likely not be able to generate enough investment capital. From an investor's perspective, financing renewable energy technology means more risk, higher capital costs, longer timeframes, and uncertain rewards. Therefore, there is a need for governments to actively access, attract and direct those (institutional) investors such as pension funds.
3. **Treating renewables as strategic choice:** Slightly paradoxal, but finance as such is not seen as *the* problem. It is about making renewables a reliable investment opportunity for the private sector. It would help if governments treat renewables as a strategic choice for the creation of a sustainable economy. If governments develop economic policies along this line from innovation to deployment and export, finance is likely to follow. Governments can learn from experiences in other sectors such as housing, roads and ports, where reliable investment opportunities were created through creative, dedicated, and persistent public policy initiatives throughout the twentieth century.
4. **Developing new risk-mitigating public finance instruments:** Governments can share or take up risks from the private sector. Potential (new) instruments are low-risk policy instrument design, loan guarantees, green bonds or green investment banks. Policy stability and policy coherence are crucial in removing policy risk.
5. **Investing in public and private acceptance to reduce costs of capital:** Governments can invest in public and corporate awareness to attract finance in an indirect way. If governments can facilitate an exchange of lessons learned, generate awareness and educate investors, stakeholders will get a better understanding of the risks and returns, which will reduce the cost of capital and speed the deployment of RE. Front runners in public acceptance (e.g. local participation in RE power generation) and corporate acceptance (e.g. multinationals investing in RE) can be used as examples to accelerate large-scale deployment of RE.

More information

Report: http://iea-retd.org/wp-content/uploads/2011/12/111205-FINANCE-RE-Final-Report.pdf
Workshop: http://iea-retd.org/archives/events/finance-re
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