

Strategies to finance large-scale deployment of renewable energy projects (FINANCE-RE)

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Forging International Finance Collaboration

International Low-Carbon Energy Technology Platform

Session 2: Barriers and gaps: why low carbon energy technology finance is not happening fast enough?

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1. Context: IEA-RETD's activities on finance

FINANCE-RE Report

- Rational IEA-RETD: get more insight in what is needed now to attract substantial financial flows to the renewable energy sector?
- How can we scale-up?
- How can we speed-up?
- Carried out by the Clean Energy Group (US)
- Released in December 2011
- Available at: <http://iea-retd.org/archives/publications/finance-re>

April 17th 2012 Finance Dialogue

- Nearly 30 financiers, bankers, governments
- Focus: new public finance measures and instruments (Green Investment Bank, Green Bonds, Loan Guarantees)
- Objectives: dialogue, exchange of experiences and views, concrete actions for governments
- Findings summarised in policy brief
- Available at: <http://iea-retd.org/archives/ongoing/finance-re-2>

2. Key messages FINANCE-RE report

1. Money is there -> barrier: misperception that money would not be available. However, new approaches are required in order to access, attract, and direct those funds
2. Continue existing support mechanisms but combine them with **new public finance measures** -> barrier: existing mechanisms have failed to sufficiently reduce the risk-to-reward ratio enough to give private-sector investors sufficient profit levels and confidence in clean energy opportunities for the game-changing investment levels needed for the future
3. Underlying message of the report: think broad, think integrated -> barrier: isolated approach. In order to solve the finance problem, policymakers must consider taking a host of non-finance as well as finance-based actions as a package of integrated solutions. It must bring together economic development, finance, innovation and energy policies

2. Key messages FINANCE-RE report

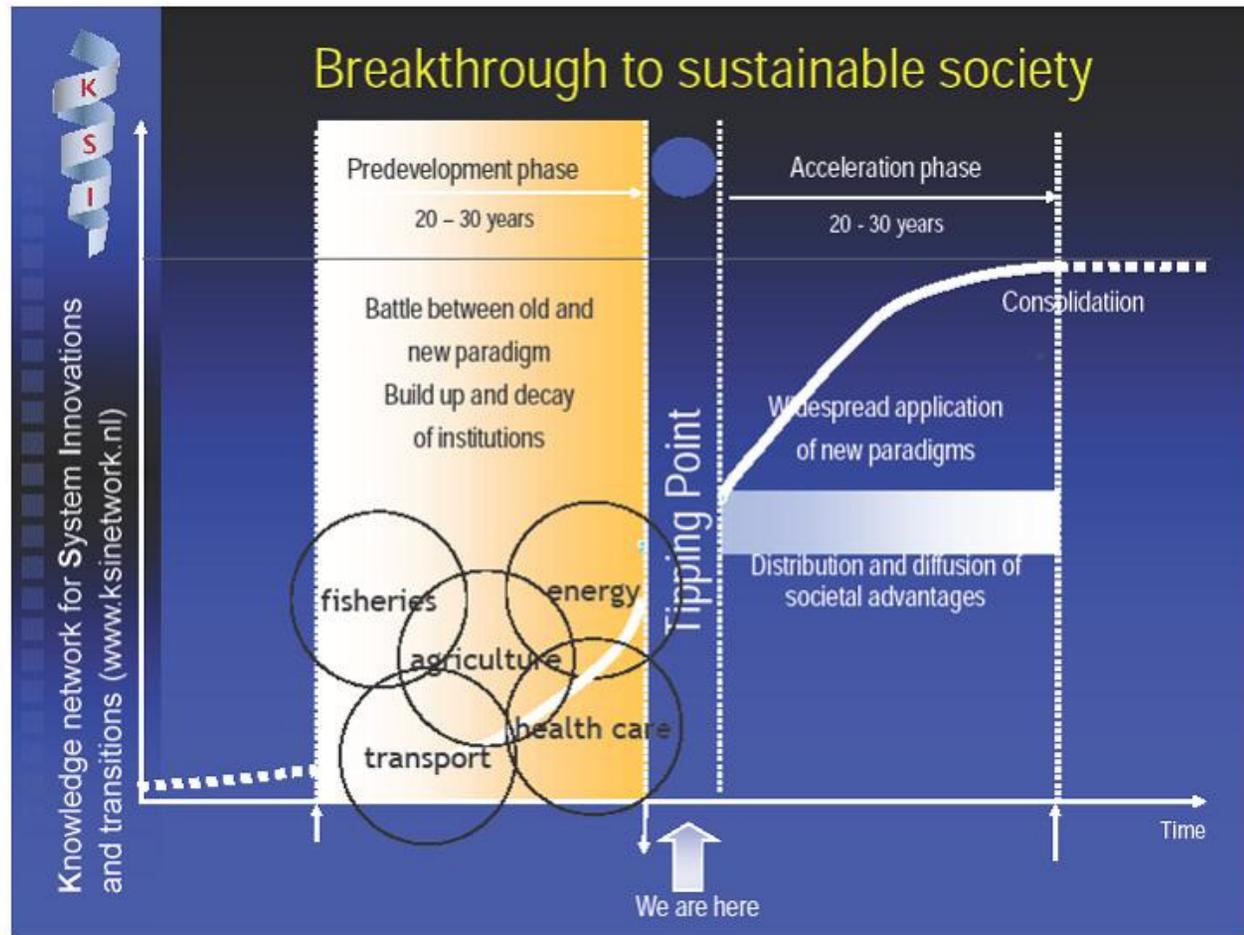
4. Governments should keep addressing market failures -> barrier: there are some well known market failures that further complicate the financing problem: carbon and other emissions are mostly un-priced making renewable technology currently more costly as compared to incumbent generating technologies that free ride on externalized pollution and health impacts; innovation is hindered through “spillover effects”; infrastructure is a public good with reduced incentives for private investment; and intermittent renewable energy requires complementary investments in energy storage and related technologies to make deployment of renewable power economical at-scale
5. Fundamental task for governments: **improve the risk-to-reward ratio** -> barrier: from investor’s perspective, financing renewable energy technology means more risk, higher capital costs, longer timeframes, and uncertain rewards. RET compete the entrenched infrastructure from incumbent fossil fuel system. To encourage private investors to direct capital into clean energy technologies, governments have an important role to reduce the risks associated with renewable energy technologies (technical, institutional, policy) and, at the same time, increase the profit potential of these investments

2. Key messages FINANCE-RE report

6. A call for a change of perspective

- **A: Treat RET as economic development strategy** -> barrier: narrow perspective on role RET in the economy. Renewable energy is no longer simply an environmental strategy. It is now an economic development strategy gaining interest across the globe, one that could help lift the world out of the economic downturn or, in the case of countries unaffected by it, provide a new market strategy for growth and poverty alleviation.
- **B: See RET as a 50-plus year infrastructure building exercise** -> barrier: underestimation that moving to a low-carbon energy system is comparable with building a rail, road, water, telecom, fossil energy infrastructure system, we did in the past. The major task for governments and the private sector is to conceive of the clean energy challenge as an infrastructure-building exercise for the next thirty to fifty years.

2. Key messages FINANCE-RE report



3. Key messages FINANCE-RE dialogue with financiers

1. Put financing renewables on the policy agenda -> barrier: only a limited number of governments realise their required active role in financing RET
2. Actively approach investors -> barrier: available new funds will not automatically be tapped by the market. 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. Treat renewables as strategic choice -> barrier: RET if still often seen as secondary environmental strategy in stead of industry & economic development strategy

3. Key messages FINANCE-RE dialogue with financiers

4. Develop new risk-mitigating public finance instruments -> **barrier: lack of risk-mitigating policy instruments**
5. Invest in public and private acceptance to reduce costs of capital -> **barrier: lack of awareness, lack of involvement, lack of acceptance, perceived risks**

5. Additional messages from the workshop audience for policy makers

- Policy stability and policy coherence are crucial in removing policy risk
- Get the prices right!
- Finance is not *the* problem, if renewables are seen as a strategic choice, with job and wealth benefits, money will follow
- Why don't national governments green the lending policy of investment or development banks through their position as board member?
- In the short run, governments have an important role to play in *financing* renewable energy, on top of the more traditional fields such as barrier removal and support scheme development

6. Take away messages for immediate action by policy makers

What immediate actions may policy makers undertake today or tomorrow, to help accelerate renewable energy finance further?

1. Get in contact with the new (institutional) investors
2. Get in contact with the institutional banks
3. Get in contact with targeted public and corporate stakeholders making use of the existing success stories of public and corporate acceptance

Meet, talk, have dialogues, exchange, learn, educate, engage

7. Our next steps

1. Continue the dialogue
2. Bring the policy briefs under the attention of policy makers through our own network
3. Set-up of a task group on finance



Thank you for your attention!

For additional information on RETD

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