

## The Obstacles and Constraints to Mobilising Finance for Renewable Energy - Inputs into CSD-14

**This is a document outlining the outcomes from Stakeholder Forum's *Obstacles and Constraints to Mobilising Renewable Energy Roundtable* (1), connecting these with Stakeholder Forum's Presentation to CSD-14 on behalf of the NGOs (2), and the CSD-14 High Level Segment Chairman's Summary (3).**

### Energy Subsidies

1. IFIs invest heavily in fossil fuels projects. This approach needs to become more balanced in favour of renewable energy projects by providing both increased direct funds for renewables and giving a clear sign to markets and investors to invest likewise.

Current energy subsidies provided to fossil fuel industries do not reflect the true costs of producing that energy. Governments agreed at the World Summit for Sustainable Development (WSSD) to 'take action, where appropriate' to phase out energy subsidies that inhibit sustainable development. This is important to redress the balance to allow renewable energy to become financially competitive.

When attracting investment, renewable energy projects are not only competing against other renewables and other energy projects, but against all other possible investments. This should be tempered by further incentives set by governments to drive investment in renewables. Regional and international IFIs could help here by providing seed capital to stimulate further investment.

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2. Current energy subsidies provided to fossil fuel industries do not reflect the true costs of producing that energy. Governments agreed at the World Summit for Sustainable Development to take action where appropriate to phase out energy subsidies that inhibit sustainable development. This is critical to redress the balance to allow renewable energy to become financially competitive.
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3. **Subsidizing fossil fuels was viewed by some as an impediment to the further development and utilization of renewable energy technologies, while others expressed concern about the social consequences of eliminating subsidies. (para. 17)**

## Innovative Finance

1. The small scale, decentralised nature of most renewable energy projects means an increase in fixed costs, such as planning and risk assessment, as a percentage of total investment. The option for a portfolio approach to renewables investment, whereby investments are made that share a certain percentage of fixed costs, reducing overall costs, and making them more competitive with larger scale, centralised projects, needs to be further explored.
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2. Developed Country Governments and International Finance Institutions (IFIs) should provide grants for demonstrations of new technology to further encourage investment and innovative programmes, especially at the local level to encourage locally owned, and therefore more secure, renewable energy technologies.
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3. **The importance of innovative financing mechanisms and technology transfer arrangements for increased investments in energy efficiency and renewable energy technologies was stressed by many. The international financial institutions could provide funding for feasibility studies and offer credit guarantees for cleaner technology investments in developing countries that would otherwise not be able to attract commercial financing. From the private sector, investments in modern energy for the poor and in clean energy from both fossil fuel and non-fossil fuel sources are needed. The role of well-functioning financial markets and institutions in making capital available to business was mentioned. (para. 25)**

**The World Bank investment framework for clean energy, which is currently being developed, is to include new financing facilities that will strengthen private-public engagement in clean energy. (para. 26)**

## Private Sector Role

1. Private sector investment is needed as government investments are not sufficient to meet the needs for investment. This should come from the business sector and private investment through innovative finance schemes backed with government finance or guarantees or Foreign Direct Investment complimented by inter-governmental funds and Official Development Assistance.
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3. **There was general agreement that public-private partnerships have a vital role to play in providing clean energy services. Such partnerships can be effective in leveraging private investment with public funds, undertaking research and development for cleaner, more efficient energy, improving air quality and health**

and generally facilitating energy for sustainable development and industrial development. (para. 28)

The important role of the private sector in helping to mobilize resources, and provide scientific and technical know-how and management skills was mentioned by many Ministers. Innovative and efficient methods of implementation at the micro-level was highlighted, along with the need for corporate social and environmental responsibility, including participation in such voluntary initiatives as the OECD's Guidelines for Business Ethics, the Global Compact and the draft ISO guidelines and respect for ILO core labour standards. (para. 29)

### **Transfer of Technology**

1. Current global policies and regulations can create barriers to the transfer of technologies, particularly North to South. Incentives need to be developed at intergovernmental, regional and national levels to increase the flows of such technologies where possible at the lowest cost. To further these flows, the transfer of small scale, simple technologies, such as low energy light bulbs, should be encouraged due to the ease and speed with which this could occur. Action must also be taken now to help promote larger scale renewables and complex technologies. Transfer should be encouraged through export promotion policies. South to South technology transfers should be encouraged. Transfers between countries at similar levels of development can play a critical role to develop techniques to achieve successful commercialisation and integration. Local and Regional governments have a large role to play in the future development of renewable energy. They can facilitate and support local and regional markets and industries. They have control or a role in implementing local and regional level planning, policy and regulation, but need stronger support from central governments, the donor community and IFIs.

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2. Barriers to North – South trade of renewable energy and energy efficiency technologies and products must be assessed and removed. South to South technology transfers should be encouraged. Transfers between countries at similar levels of development can play a critical role to develop techniques to achieve successful commercialisation and integration.

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3. **Some delegates felt that CSD could complement the efforts of the UNFCCC by focusing on the inter- linkages among the four themes and promoting energy efficiency and renewable energy technologies, advanced and cleaner energy technologies, including advanced, cleaner fossil fuel technologies, and investments aimed at co-benefits in these areas and pursuing the MDGs. (para. 18)**

**Industrial development in Africa was seen as a priority by many Ministers, who noted that NEPAD arrangements could facilitate South-South trade relationships and exchange of information. Small businesses need greater access to capital, entrepreneurial training and improved capacities for meeting international product standards and marketing their products. Large enterprises through their supply chains could also help to strengthen the technical capacity and cleaner production methods of small and medium sized enterprises (SMEs). (para. 19)**

**Key challenge: Enhancing international and regional cooperation, including both North-South and South-South cooperation, engaging Governments, international organizations and stakeholders, with particular attention to the inter-linkages among the themes and the cross-cutting issues, and addressing economic, social and environmental issues in an integrated and balanced way. (para. 35 (c))**

**Key challenge: Enhancing means of implementation by building capacities in developing countries, increasing the transfer of appropriate technologies, and strengthening education and training with financial and technical assistance from developed countries and international organizations. (para. 35 (e))**

### **Policy Frameworks and Targets**

1. Renewable energy targets should be long-term, global, time bound and underpinned by specific climate change indicators, as well as having incentives for meeting them. There is also the need for a review mechanism to ensure renewables targets remain relevant, realistic and achievable. The setting of renewables targets needs to be carefully assessed. If they are too low the underlying benefits that are sought will not be fully achieved, if they are too high economies, especially those of developing countries, could be put under too much pressure and no benefit at all will be had. A balance needs to be achieved between creating an atmosphere of ‘required action’ while not creating a sense that the problem is insurmountable, and result in poor decision making.

There is a need for joined up policy, incorporating mechanisms and instruments such as targets, taxes and incentives. These mechanisms and instruments need to be meaningful, measurable and transparent, as well as being well publicised by governments at all levels, with help from NGOs and other stakeholders. This will serve to enhance stable economic environments for investment. Without such stability, the long-term viability of investments cannot be guaranteed.

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3. **A number of participants underlined the need for a long-term, predictable policy framework to help countries move to a low carbon emission society. (para. 7)**

**A number of delegates urged greater use of national sustainable development strategies as a framework for coordination of national development activities. Such efforts could be combined with national plans to achieve the MDGs and other development targets. The regional perspective was also highlighted and the importance of the Regional Implementation Meetings and the work of the UN Regional Commissions was cited. (para. 31)**

**Several government representatives expressed the view that the effectiveness of UN agencies operating in developing countries could be greatly improved by aligning their activities with the MDGs and the JPOI goals and targets and by strengthening inter-agency cooperation in implementation. UN agencies could also assist in strengthening South-South cooperation, for example, with regard to bio- fuel alternatives. (para. 32)**

### **Redundant Technologies**

1. The current trend whereby obsolete products/appliances and technologies are sold on to developing countries further exacerbates the problems surrounding renewable energy. There is a need for investment in more energy efficient appliances. Enforced redundancy of inefficient products/appliances and technologies will allow more efficient products to fill the gap. How this would be done in developing countries where the goods are manufactured needs further research.
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3. **Industrial development in Africa was seen as a priority by many Ministers, who noted that NEPAD arrangements could facilitate South-South trade relationships and exchange of information. Small businesses need greater access to capital, entrepreneurial training and improved capacities for meeting international product standards and marketing their products. Large enterprises through their supply chains could also help to strengthen the**

**technical capacity and cleaner production methods of small and medium sized enterprises (SMEs). (para. 19)**

**Energy Efficiency**

1. The focus of new research and development should be on both renewable energy and energy efficiency. While investment in developing renewable energy is paramount to increase its cost competitiveness with more carbon intensive energy sources, the cost savings possible from increased energy efficiency, both through more efficient technologies and stricter regulations on energy use should be at the forefront of policy development on energy. Further work also needs to be done to make investments in energy efficiency more attractive.
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3. **Many delegates stressed the importance of energy efficiency and renewable energy I in reducing air pollution and greenhouse gas (GHG) emissions. Energy efficiency was considered essential to enhancing industrial development as well. Many countries have made energy efficiency central to their sustainable development strategies, and some have taken action on efficiency standards, labeling and regulations. (para. 13)**

**Recent increases in energy prices were seen by some participants as an important stimulus for the adoption of energy efficiency measures and for greater use of renewable and advanced energy technologies, including advanced, cleaner fossil fuel technologies. (para. 14)**

**Research and Development**

1. Current trends in research and development point towards a difficulty in products progressing through to the market. If the economic implications of investment are not as attractive as alternatives, then the finance will usually not be forthcoming, even where a new technology is seen as a breakthrough.

Current research and development policies that concentrate on large scale, proven energy sources can lead to the oversight of important small scale research projects. Increased government intervention in this area, through both direct investment and mitigation of risk for private investors, could secure the required increase in funding for small scale research projects. These interventions need to be focussed on the right areas, such as infrastructure development, to ensure the maximum long term benefits. This problem is especially acute in developing countries, where increased research and development is essential to building long term, self sufficient energy sectors.

Research and Development needs to influence policy as well as technology development. This would help to provide a better enabling environment for future renewable energy projects, and would act as a spur to long-term growth in the sector.

Developed country governments and International Financial Institutions (IFIs) should make available grants for demonstrations of new technology to further stimulate investment and innovative programmes, especially at the local level, to encourage the development of locally owned, and therefore more secure, renewable energy technologies.

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3. **The need for energy diversification was emphasized by several Ministers. However, since energy from fossil fuels will provide the dominant share of energy supply in most countries for the foreseeable future, the need for cleaner fossil fuel technologies was also stressed. A number of technologies, including carbon capture and storage and carbon sequestration were cited as possible options. A few delegates emphasized hybrid options, using fossil- fuel energy in combination with other energy options. Some pointed to the benefits of natural gas as a cleaner fossil fuels for lowering air pollution and GHG emissions. (para. 15)**

**Many Ministers emphasized however that the cost of advanced technologies remains high and greater investment in renewable energy and advanced fossil fuel technologies must be encouraged, and new product and process technologies developed and introduced. Developed countries were encouraged to take the lead**

**in further developing such technologies and make them accessible to developing countries at affordable prices. (para. 16)**

### **Mitigation of Risk**

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2. There is not yet a clear indication on which renewable energy sectors will make the transition to large scale production in the future. Unfortunately this uncertainty is holding back large scale investment. These types of risk factors need to be underwritten or mitigated by governments and IFIs to stimulate markets to invest in renewable energy.  

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3. **Governments, for their part, are responsible for establishing leadership, setting clear and realistic targets, providing a sound legal framework, reducing transaction costs for doing business, offering risk-sharing mechanisms and providing seed money to leverage private capital. (para. 28)**