

## **DIREC: CATALYZING FINANCE FOR SCALING UP RENEWABLES**

Renewable energy technologies have long been recognized as an important part of the solution to address the concerns regarding energy security and economic growth in an environmentally friendly manner. However, despite efforts and the proactive stance taken by many countries, renewable energy is yet to be fully regarded as an economically viable alternative energy solution. Several barriers impede commercialization of renewable energy and the development of commercially viable small-and-medium scale enterprises that harness these technologies. The major barriers include: limited financing to defray high up-front costs associated with developing renewable energy projects; entrepreneurs' lack of familiarity with structuring commercially viable businesses; strong competition from subsidized conventional energy sources; and market penetration costs. Past experiences indicate that while there is a perceptible growth in demand for and adoption of renewable energy technologies, institutionalization of market mechanism especially that of investment mechanisms, is yet to take root. DIREC will explore strategies that help address these barriers and stimulate enhanced financing for deployment of renewable energy at scale.

To achieve large-scale deployment of technologies that have been commercially proven requires large-scale investment. Weak financial markets create not only a problem of access to finance, but also introduce a bias towards investment in fossil fuel based technologies. Many of the RETs are still relatively new to market and commercial chains, networks, marketing and financial links and other institutional structures that service traditional energy technologies are not fully in place. In low-income countries government intervention and development finance is necessary to unlock and scale-up investment in RE technologies (cover incremental costs, share risks, provide underlying finance in LDC). But to achieve large-scale deployment, a large share of financing will have to come from the private sector. These issues would be addressed in a specific session that focuses on financing deployment at scale by analyzing the existing risks and barriers and the role that financial institutions can play in catalyzing commercial investment.

To develop strategies for financing small-scale projects/businesses or to develop a new technology, a renewable entrepreneur needs various sources of capital and business-development support. However, there is limited availability of investment capital to finance the high up-front costs associated, especially with the initial stages of developing a RET project as has been discussed earlier. Due to various barriers and market failures that inhibit financier engagement in (particularly off-grid) RE markets, there are many financial and non-financial gaps. These gaps make it difficult to launch new businesses or even to expand an existing and proven one. DIREC proposes to bridge these gaps by coming up with strategies that can help address the issue of meeting the enterprise development services for clean energy SMEs, scaling up access to early stage/seed capital for RE projects, identifying approaches for softening loan financing: Interest rate reductions, green mortgages, guarantee facilities etc. A specific session dealing with the issue of financing small business

and end users would focus on the importance of microfinance, development of new end-user finance products by local banks/MFIs, leveraging existing networks and building new market linkages.

Financing innovation to meet the needs of renewable energy sector is another aspect that will be addressed at DIREC, where new approaches to financing innovation through public/private cooperation will be highlighted. This will be undertaken through multi stakeholders discussion on the issues, challenges and opportunities of being a first mover in the renewable energy space, the role of public finance mechanisms and strategies for lowering the risk premium and cost of capital associated with investments in innovation and financing innovation at the bottom of the pyramid.

The sessions proposed at DIREC for developing strategies for catalyzing finance for scaling up renewables will also focus on understanding the current initiatives that aim to provide additional financial incentives to bring down financial cost and increase opportunities to scale up investment in renewable.

If you are interested in finance-related aspects for mainstreaming renewable energy, then your suggested itinerary could be:

### DAY 1: 27<sup>th</sup> October 2010 (Wednesday)

S No	Topic	Organisers	Date and Time	Room
<b>Parallel Workshops</b>				
1	National Funding Institutions Promoting Renewable Energy – Best Practices and Future Perspectives	KfW Development Bank	27-10-2010 (10.30 to 14.00)	Yamuna

### DAY 2: 28<sup>th</sup> October 2010 (Thursday)

S No	Topic	Organisers	Date and Time	Room
<b>Main Ministerial Session</b>				
<b>TRACK 3 – FINANCE</b>				
1	Financing innovation - projects, businesses & technologies		28-10-2010 (09h00-10h30)	Krishna
2	Financing deployment at scale		28-10-2010 (11h00-12h30)	Krishna
3	Financing for small businesses and end-users		28-10-2010 (14h00-15h30)	Krishna

4	Initiatives to catalyse and scale up investment in RE		28-10-2010 (16h00-17h30)	Krishna
<b>Official Side Events</b>				
1	Innovation in Renewable Energy Finance	American Council on Renewable Energy (ACORE), US Department of Commerce (USDOC)	28-10-2010 (17.30 to 19.00)	Kosi

**DAY 3: 29<sup>th</sup> October 2010 (Friday)**

S No	Topic	Organisers	Date and Time	Room
<b>Official Side Events</b>				
2	Addressing barriers for equity investment and raising risk capital for grid-connected solar energy	Centre for Innovation Incubation and Entrepreneurship (CIIE), IIM Ahmadabad	29-10-2010 (12.30 to 14.00)	Kosi