

# Education and Financing Capacity Building for Renewable Energy

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# Session Topics

- Reasons Behind Investment Failures for Renewable Energy
- Micro-financing Requirements and Opportunities
- Guidelines for Certification of Renewable Energy Promotion Organizations

# Issues Related to Education and Financing for Renewable Energy Services

- Share the findings of two recent workshops aimed at identifying issues and barriers to financing of rural energy services
  - Sponsored by the Global Village Energy Partnership (GVEP)
  - Berlin Pre-Investment Workshop held in April 2003: Aimed at *Entrepreneurs and Investors*
  - Manila Consumer and Microfinance Workshop held May 2004: Aimed at *Consumer and Microfinance Organizations*
  - Each workshop brought together about 50 experts from around the world to share lessons, experiences

# Pre-Investment Workshop, April 2004, Berlin Germany (KfW co-host)

## ***Workshop Purpose:***

- *To determine need for GVEP Pre-Investment Facility*

## ***Key Findings:***

- **There is a need for financing support across the spectrum**
  - Pre-feasibility, feasibility, investment, insurance etc.
  - These need to be linked
  - Pre-investment support necessary but not sufficient need follow on investment support
- **Renewable projects yield returns but not always the level required by traditional investors require (smaller, off-grid)**
- **Global funding mechanisms for RE services have not been effective**
  - Funding mechanisms need to be locally managed/operated; utilize local currencies
  - Need to increase local liquidities in the marketplace

# Pre-Investment Workshop, April 2004, Berlin Germany (Cont'd)

- **Financial resources are available in the marketplace, however:**
  - Funds not always accessible for 'near' commercial rural/peri-urban energy projects
  - Pre-investment funding difficult to access in most countries; where available, does not always yield deal flow
  - Investment financing does not necessarily follow projects with pre-investment support
  - Where liquidity is present there is often insufficient understanding of the risks and rewards associated with financing energy projects/enterprises and a limited menu of financing options available
  - Funding sources (pre-investment/investment) are not always known to local entrepreneurs and consumers
  - Financial institutions and investment houses generally require collateral or other guarantees for pre-investment/investment; restricts the base of eligible entrepreneurs/ enterprises & their expansion
  - Accessing funds where they exist is difficult, time consuming and costly.

# Consumer and Microfinance Workshop, May 2004

## ***Workshop Purpose:***

- To develop consensus on design elements for increasing access to consumer loans and microfinance for energy consumers

## ***Key Findings:***

- **Access to modern energy services can be enhanced with access to consumer credit and micro financing**
- **Willingness from both the MFI & energy players to work on this issue**
- **Energy services can provide a new, profitable product line for MFIs:**
  - Consumers already paying significantly for energy in many instances
  - Can help to increase incomes, jobs and quality of life
- **A number of examples exist where energy products/services are already being financed by MFIs**
  - Equipment purchases/leases, appliances, electricity connections, payment of energy bills, etc
- **Funding issues:**
  - Short terms may not match energy needs (mid term)
  - Matching of loan amounts to funding source (too small for banks; too large for MFIs?)

# Consumer and Microfinance Workshop, May 2004 (Cont'd)

- **Energy services must be *demand driven*, affordable, & match consumer income flows**
  - Need further research on consumer needs, appropriate products
  - Clients may not be aware of energy benefits (particularly income-related)
  - Outreach, marketing and piloting of energy products will be required
- **There are a range of technology options/packages that can meet energy service needs at various energy levels and costs**
  - Solar dryers, solar lanterns, solar photovoltaics, cookstoves, LPG, village hydro, biogas, LED lamps
- **Productive uses and income generation should be a priority**
- **Need to address the entire value chain**
  - Consumers, Suppliers and Financiers
  - Draw on the strengths of each player
- **Ingredients for successful MFI-energy program**
  - Improve financial capacity of borrower
  - Adhere to good practices
  - Solid vendors, including servicing
  - Minimal deviation from existing bank policies and procedures
  - Build up awareness of key personnel

# Cross Cutting Issues from both Workshops

- **Markets need to grow on their own strengths not on subsidies**
  - However it is recognized that subsidies may be necessary/appropriate
  - When applied need to be “smart” and time bound
- **There is a call for risk sharing and risk mitigation instruments**
  - Should be accessible for the range of actors in the marketplace -- financial intermediaries, entrepreneurs, municipalities, coops, etc.
- **Knowledge Gap exists for all players**
  - Investors, MFIs, entrepreneurs, consumers, policy makers, etc
- **Carbon finance can potentially help**
- **Public-Private Partnerships are key**
  - Governments and IFIs: Create enabling environment through policies and regulations; credit access (not delivery)
  - Bilateral Donors: Support for TA, Training, Capacity Building, Knowledge Sharing
  - Private Sector: Marketing, after service sales, quality control
  - Financial Institutions: Investment
  - Consumers: Provide demand