



**DEO-Day 2010 Concept Note**  
**“Financing Instruments for Modern Energy in Developing Countries”**

### **Introduction**

The Young Energy Specialists for Development Cooperation, a network of about 225 junior professionals, organises a bi-annual debate on energy in the developing world. For 2010 the focus will be on how to support the introduction of modern energy services in developing countries as a part of international climate change activities. Between the Copenhagen and the Mexico conferences on climate change, it is a good moment for energy professionals to obtain an overview of what is happening, which opportunities are arising, and what innovative approaches are emerging.

### **Climate Financing Beyond CDM**

The Clean Development Mechanism, operational since 2006, was designed to promote sustainable development and reduce greenhouse gas emissions from developing countries using funds from developed countries<sup>1</sup>. The concept was to let developing countries propose projects that would support their development and then allow the market to determine the selection of projects that can provide proven emission reductions or Certified Emissions Reductions (CERs).

Unfortunately, the poorest countries have hardly benefited from the CDM. Mostly large-scale renewable energy and energy efficiency projects are found in the CDM portfolio, because the verification of emissions reduction is relatively low-cost with large volumes of emissions reductions. As most developing countries have very limited industrial sectors, the CDM has a relatively small effect on poverty reduction. In particular, it is now evident that there has been a lack of (rural) electrification projects, and very few CERs emanating from Africa. Even though the CDM intervention has great potential to contribute to sustainable development, Climate credits have been very rarely used<sup>2</sup> for rural electrification due to the relatively high transaction cost per unit of emission reduction.

It is possible that after 2012, more “flexible” arrangements (such as a sectoral approach) will be expanded, which creates new opportunities for the support of modern energy in a development context. In addition to the CER market, there appears to be a limited, though growing, market for Voluntary Emissions Reduction

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<sup>1</sup> <http://cdm.unfccc.int/about/index.html>

<sup>2</sup> <http://cdmpipeline.org/cdm-projects-region.htm>



(VERs)<sup>3</sup>, where GHG emissions are abated and the project developer has developed a simplified method for assessing the climate impact. On the basis of trust in such a method, increasingly VERs from renewable energy activities are sold to Western households and companies, who offset their own emissions voluntarily. Low-cost web-interfaces provide ways to transfer these credits, avoiding high transaction costs to a large number of customers. These arising opportunities<sup>4</sup> combined with the increased awareness of the climate change problems in the world, creates an efficient platform for innovative approaches to the finance of modern energy. The challenge of VERs is to ensure that the emission reductions are actually achieved, given there is very limited monitoring.

### **Technology Transfer**

An issue that has been gaining importance on the development and climate agenda is the transferring of technology, not only money, in order to promote the use of clean and efficient technologies. This is generally considered broader than just the diffusion of technology into a different country: it includes the maturation of technologies towards commercial viability, and it often needs to include the transfer of knowledge, experience and regulatory practices. The Copenhagen Accord, currently the only outcome of the international climate change negotiations, included some form of technology mechanism. However, the details of this mechanism are not clear at the moment. Ideally, such a mechanism would convince industry to invest in state-of-the-art energy efficiency or in renewable energy generation to support business processes, but little guidance has been provided.

In academic circles, discussion about technology transfer is moving towards creating “technological innovation systems” in developing countries. This approach acknowledges that several components are required to provide a stable enabling environment for a new, low-carbon technology. When the knowledge base is sufficient, a market for the new technology can be formed, entrepreneurs are willing to experiment, and resources can be mobilised. An important challenge for international climate negotiations is to lay such principles down in a practicable agreement that works for both donor and developing countries.

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<sup>3</sup> [http://www.ecosystemmarketplace.com/documents/cms\\_documents/StateOfTheVoluntaryCarbonMarkets\\_2009.pdf](http://www.ecosystemmarketplace.com/documents/cms_documents/StateOfTheVoluntaryCarbonMarkets_2009.pdf)

<sup>4</sup> See for example [www.fairclimatefund.nl](http://www.fairclimatefund.nl), [www.myc4.com](http://www.myc4.com), or <http://www.1procentclub.nl>.



**Aim**

The aim of the DEO day is to share visions and explore innovative approaches of financing and promoting the implementation of modern energy systems in developing countries.

**Location:** Utrecht, The Netherlands

**Admission:** €10 per person, €7.50 for students

**Target audience:** professionals from the private sector, members of development organisations and financial institutions, and renewable energy experts. Expected attendance of 50-80.