

**INTERNATIONAL RENEWABLE ENERGY AGENCY**

Eighth meeting of the Council

Abu Dhabi, 3 – 4 November 2014

**Note of the Director General  
Financing of the Agency - strategy for the future****I. Introduction**

1. The Assembly at its 4th session requested that the Director-General, “ ... *work with the Council to seek innovative options for future funding opportunities for the Agency, in accordance with the provisions of Article XII/A.3 of the Statute, and to report on the progress made at the fifth session of the Assembly.* ” (A/DC/4/1)

2. During the initial discussion at its seventh meeting, members of the Council highlighted the key elements for consideration in developing the future funding strategy for IRENA. It emphasised that the funding is closely linked to the Agency’s strategic and programmatic objectives, as well as its role in the broader context of the renewable energy sector and associated drivers for deployment, such as energy access, energy security and intensifying trends of climate change. The Council members noted the need for prioritisation of the Agency’s activities to the most impactful areas, mindful of the balance across substantive and regional needs. Finally, it recognised that the Members’ ambition for the Agency will require an optimal balance between its core budget and diverse non-core resources.

3. The Council noted the upcoming milestones, including the preparation of the Work Programme and Budget 2016-2017. The Council will consider the preliminary work programme framework and budgetary envelope for 2016-2017 at its spring session in 2015, based on which the Work Programme and Budget will be developed for consideration of the Assembly at its sixth session in January 2016. In addition, the Assembly will consider review of the 2013-2017 Medium-term Strategy (MTS) during its sixth session in 2016. The Council recognized that, while the overarching vision of IRENA as the global voice for renewable energy has longevity, the strategic objectives and the means by which this vision is achieved should respond to evolving needs in a dynamic environment, considering the continuously increasing economic and geopolitical significance of renewables.

4. The Council members also stressed the importance of regular discussions on the future role of the Agency, so that its strategy is based on the assessment of trends and developments in the renewable energy sector and the experience gained in the implementation of the current MTS.

5. Pursuant to the Assembly decision A/4/DC/1, and based on the discussions to date, as well as at the eighth meeting of the Council, the Director-General will report to the Assembly at its fifth session on the options for future funding opportunities.

## II. The future of renewable energy

6. In its recent report, *REthinking Energy*, IRENA examined the main drivers for transformation of the global energy system. Over the past 40 years the world's population grew from 4 billion to 7 billion people, marked with an increasing proportion of middle class and rapid urbanization. During the same period, electricity generation grew by more than 250%. The report highlights that, in 2030, there will be more than 8 billion people, with 5 billion in urban conglomerations. Global spending by the middle classes is expected to more than double, and the world electricity generation is forecast to grow by 70%.

7. *REthinking Energy* points that there are compelling reasons for changing the current energy mix to meet this demand, and that renewable energy will play a central role in the effort to transform the global energy system. Below are some of the key drivers for this change and strategic considerations to guide the development and resourcing of future programming.

- **Renewable energy costs continue to fall.** Large-scale hydro, geothermal and biomass power have been competitive for some time. Over the past decade, and in particular over the last five years, solar and wind are increasingly reaching grid parity. Solar photovoltaic (PV) prices have fallen by 80% since 2008 and are expected to keep falling. In 2013, commercial solar power reached grid parity in Italy, Germany and Spain and will do so soon in Mexico and France. The cost of onshore wind electricity has fallen 18% since 2009, with turbine costs falling nearly 30% since 2008, making it the cheapest source of new electricity in a wide and growing range of markets. More than 100 countries now use wind power. Offshore wind is also expected to grow rapidly as costs fall, with the United Kingdom leading the market with 4.2 gigawatts (GW) of installed capacity as of mid-2014. Hydropower was also estimated to have had a strong year in 2013, with around 40 GW of new capacity. About 0.5 GW of geothermal capacity was added in 2013, driven by the United States, Indonesia, Kenya and New Zealand. The capacity of bioenergy-fuelled plants went up 5 GW in 2013, as developed and developing countries are increasingly turning to bioenergy (including agricultural residues and wastes) for electricity generation purposes.
- These developments, coupled with growing robustness and efficiency of technologies, have made investment in renewable energy increasingly attractive. Globally, renewable energy power capacity has grown 85% over the past 10 years, and renewables today constitute 30% of all installed power capacity, the largest share of any source.
- **Renewable energy has wider benefits.** There is growing evidence that renewable energy has a positive ripple effect throughout society, simultaneously advancing economic, social and environmental goals. A recent Japanese study, looking at a 2030 target of 14%-16% renewables, found the benefits were 2-3 times higher than the costs – including savings in fossil fuel imports, CO<sub>2</sub> emissions reductions and economic ripple effects. Spain's use of renewables avoided USD 2.8 billion of fossil fuel imports in 2010, while Germany saved USD 13.5 billion in 2012. For fossil fuel-exporting countries, deploying renewables at home makes more resources available for sale overseas.
- Employment remains one of the critical objectives for countries' growth strategies. Around the world, policy makers are pursuing renewable energy technologies not only for greater energy security or environmental considerations, but principally for the socio-economic benefits they generate. The renewable energy sector has become a significant employer, with 6.5 million direct and indirect jobs in the renewable energy industry today (excluding hydropower) and the potential for millions of jobs worldwide in the coming years.
- **Renewable energy is essential to stabilising the climate system.** There is growing consensus on the threat of climate change brought on by increasing atmospheric concentrations of greenhouse gases, prompting worldwide efforts to reduce emissions. A recent IPCC report expressed clearly the need to act quickly and reduce carbon emissions to avert the catastrophic effects of climate

change. The report stressed that tripling or even quadrupling the share of renewable energy in the global energy mix by 2050 is a central part of the solution. IRENA's REmap 2030 shows that under current policies and national plans, average carbon dioxide (CO<sub>2</sub>) emissions will only fall to 498 g/kWh by 2030, exceeding the limit of 450 ppm beyond which severe climate change is expected to occur. By contrast, if stakeholders double the share of renewable energy by 2030, global average emissions could be reduced to 349 g/kWh. Coupled with improvements in energy efficiency, this would be enough to avert disastrous climate change.

- Therefore, a concerted effort of all stakeholders is required to accelerate transformation by accelerated deployment of renewable energy. The will to pursue this path is increasingly evident. At the recent UNSG's Climate Summit, over 100 global leaders and some 500 public sector and civil society representatives stressed their commitment to take the necessary action to stabilise the climate system, including through renewable energy deployment.
- **Renewable energy is key to addressing energy poverty.** Energy poverty, faced by 1.3 billion people without electricity access and 2.6 billion who rely on traditional biomass for cooking and heating, is catalysing action to provide access to modern energy services to improve lives and stimulate economic growth. According to the World Bank, to achieve universal access to electricity by 2030, the pace of expansion needs to double – using both on-grid and off-grid solutions. The modular, scalable and decentralised nature of renewables means they can be adapted to local conditions and provide a broad range of energy services depending on the needs and purchasing power of end users. There is growing evidence that off-grid renewables can increase household income and employment opportunities both in the energy supply chain and in downstream enterprises. IRENA estimates that attaining universal access to modern energy services by 2030 could create 4.5 million jobs in the off-grid renewables-based electricity sector alone.
- Renewable energy can have an immediate and transformative impact, and a growing number of examples from developing countries illustrate how renewable energy solutions can not only provide the energy poor with access to clean energy at an affordable price, but also stimulate economic development and social wellbeing. The business case for renewable energy in these settings is strong and is becoming a major potential for new market openings and investments.

8. These are compelling facts that will continue to drive the deployment of renewables worldwide in decades to come, as well as guide the development of IRENA programming. Some 140 countries have already set renewable energy targets, and almost 130 have policies in place to facilitate deployment. Investments have risen from 55 billion in 2004 to USD 214 billion in 2013. Furthermore, after a downturn in 2013, the latest BNEF records show that over USD 175 billion was invested in renewable energy power in the first nine months of 2014, a 16% increase compared to the same period last year.

9. The growing relevance of renewable energy is also reflected in IRENA's membership. Today, IRENA has 135 Members, from 68 at the time of its establishment in 2011, with additional 34 at various stages of accession to membership. The fast growing engagement of countries and organisations demonstrates the importance of IRENA's mission, as well as recognition of IRENA as the right vehicle to advance this mission. It is therefore imperative to strike the right balance between the expectations and demands placed on the Agency and its limited resources.

### III. IRENA's comparative advantage and programmatic activities

10. Article II of the Statute states that, “The Agency shall promote the widespread and increased adoption and the sustainable use of all forms of renewable energy, taking into account:

- *national and domestic priorities and benefits derived from a combined approach of renewable energy and energy efficiency measures, and*
- *the contribution of renewable energy to environmental preservation, through limiting pressure on natural resources and reducing deforestation, particularly tropical deforestation, desertification and biodiversity loss; to climate protection; to economic growth and social cohesion including poverty alleviation and sustainable development; to access to and security of energy supply; to regional development and to inter-generational responsibility.”*

11. IRENA plays a unique role as the only international organisation dedicated solely to renewable energy. In delivering its programmatic activities, IRENA relies on its key strengths, including:

- Focused and unambiguous mandate;
- Broad membership base and strong Members' engagement in the work of the Agency;
- Access to key government partners;
- Direct and continuous engagement with countries at all levels;
- Increasing intellectual capital accumulated through programmatic work and interaction with countries;
- Growing credibility and authority based on substantive products;
- Engagement in partnerships and alliances for greater effectiveness and sustainability of effort; and
- Promotion of consultative, inclusive and participatory processes.

12. IRENA's programmatic activities are guided by the MTS, which calls for the Agency to be “*the global voice for renewable energy*” by serving as a centre of excellence for renewable energy; a renewable energy advisory resource for countries; and network hub of country, regional and global programs. The programmatic work spans from knowledge and advice products, through convening to enabling action. At present, IRENA concentrates its work programme on six thematic areas:

- Planning for the global energy transition;
- Gateway to knowledge on renewable energy;
- Enabling investment and growth;
- Renewable energy access for sustainable livelihoods;
- Islands: lighthouses for renewable energy deployment; and
- Regional action agenda.

13. With its rising visibility and growing membership, requests for IRENA's involvement is growing both in size and scope. In keeping with the imperative to remain flexible and adaptable, IRENA is responding to new and emerging priorities. Of note is IRENA's increasing engagement in promoting renewables in the climate context, which includes its lead role in the energy part of the United Nations Secretary General's (UNSG) Climate Summit and cooperation with relevant UNFCCC mechanisms.

14. Importantly, IRENA is increasingly receiving requests from individual Members to provide in depth advice on technology and policy matters. This work strengthens IRENA's knowledge and competence, but also puts strain on resources. Thus, discussions on how to address requests for advice from individual Members will be necessary. Furthermore, IRENA is increasingly called upon to take part in the implementation of projects and to provide technical support. IRENA has limited its involvement in the project implementation to either pilot stages of projects or facilitation of implementation. The

question whether the technical support function should remain an integral part of the IRENA business model has been answered by implication, since the majority of requests from Members are related to this aspect.

#### **IV. Financing of the Agency**

15. Stable, predictable financing is fundamental to IRENA's ability to deliver on an increasing number of programmatic requests. From the outset, it was evident that countries did not wish to create another large international organisation, but a focused Agency responding to country needs and with the necessary flexibility to adapt and adjust within a relatively short period of time. Countries also recognised the need for a critical mass of staff which, according to the IRENA Statute, are to be funded by the core budget. The Statute also provides for financing by voluntary contributions and '*other possible sources*'.

16. Members emphasised that the ambition for the Agency should remain high, but accompanied by innovative strategies for securing funding beyond the core budget. Currently, IRENA derives an increasingly large percentage of total budget from voluntary contributions. Voluntary contributions have increased from 44% of total budget in 2012 to 61% in 2013 despite the fact that IRENA's budget remains comparatively unchanged (USD 28.4 million in 2012 to USD 29.7 million in 2013).

17. In considering the opportunities for diversifying future funding, it is important to reflect on the implications of growing membership and related functions on the core budget.

##### **a. Membership**

18. At the onset of 2014, 124 Members were assessed for the IRENA budget. In the course of the year, IRENA membership increased to 135 Members. At present, 34 countries are in the process of accession, bringing the number to 169, with only 25 countries remaining to reach universal membership.

19. The growth in membership does not come with the commensurate increase in assessed resources. For example, the additional assessed contributions of the new Members in 2014 amounts to approximately USD 0.2 million. According to the UN scale of assessment, IRENA's current membership accounts for 88% of contributions compared to the universal membership. Based on the assumption that 34 states in accession would achieve full membership in the next biennium, this ratio would increase by 2% to 90%.

20. Trends to date have shown that, as the membership increases and the Agency matures, so does the number of requests to the Agency. For example, during the first nine months of 2014, some 210 requests were received, with over 140 being requests for technical assistance and analytical support and advice. Therefore, it is prudent to assume that the workload for the Agency would significantly grow as knowledge of available services increases and new countries join, in particular for regional and country level work. It should be noted that, even with the assumption of universal membership accounting for additional 58 countries, the impact on Members' assessed contributions would be marginal.

##### **b. Staffing**

21. In spite of the rapid growth in membership, IRENA's core staffing increased only modestly since its establishment.

<b>Year</b>	<b>Number of Members</b>	<b>Number of Core Posts</b>
<b>2011</b>	68	72
<b>2012</b>	84	72
<b>2013</b>	104	81
<b>2014-2015</b>	124 <sup>1</sup>	89

22. While it is evident that the growing needs will not be met through the core resources only, it is essential that the Agency possesses sufficient core capacity to perform critical programmatic and administrative functions. Sound core infrastructure is positively correlated to the trust in all aspects of the institutional process, including governance and priority-setting; strategic and operational clarity; transparency in resource planning and allocation; sound management; accountability and administrative efficiency; and performance evaluation.

23. An in-depth review of the needs will be undertaken in the process of the development of the work programme, but it is evident that some limited additional resources will be necessary to strengthen the core functions, as well as to increase non-core resources. IRENA's analytical work to date, coupled with the experience in implementation of the work programme in the past four years, growth in demand from Members and developments in the renewable energy sector, indicate the programmatic areas that will require strengthening in the future.

24. For example, REmap 2030 highlighted the importance of end-use sectors and biomass in increasing the global share of renewables in the energy mix, and IRENA will have to increase its in-house capacity on these subjects. Similarly, IRENA's work on Renewable Energy Access for Sustainable Livelihoods will be expanded as it has provided further evidence of the transformative impact of renewable energy solutions on the quality of life of millions of people, in particular for productive uses. Activities such as the Africa Clean Energy Corridor and the SIDS Lighthouses have reached a critical momentum that needs to be sustained in the future. The Agency's regional work in general and technical support provided through RRAs, capacity building activities and advisory services continue to grow. In addition, the Agency's engagement in the global climate change efforts is becoming increasingly pertinent. These emerging programmatic priorities would have resource implications in the future and would need to be supported by enhanced funding from various sources.

25. In this context, it is important to note that the UAE BID contribution of USD5.8 million per annum for research and operations ends in 2015<sup>2</sup>, which will have a significant impact on future programming. On the other hand, voluntary contributions are being received from an increasing number of countries, which strengthen the Agency's ability to expand its programmatic reach.

26. In addition, a diversification of funding base will require resource mobilisation to become a key function of the Agency to enable the strategic policy and operational priorities to be implemented in a coherent, transparent, predictable and sustainable manner. This process conceals a rather complex horizontal policy support function that touches on all aspects of the organisation including governance and policy decision-making, planning and budgeting, resource allocation, and programme delivery and coordination. Therefore, dedicated resources will be needed to support this function. Finally, the core budget will have to account for routine changes, such as the inflation rate and adjustments to staff benefits and entitlements.

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<sup>1</sup> At the time of the fourth session of the Assembly. Since, the membership increased to 135.

<sup>2</sup> Contribution of USD 1.6 million for conference service would continue.

27. A key objective in considering the future funding options must be to secure a sustainable balance between core budget and voluntary contributions and other resources in a way that the needs for programme expansion and delivery capacity are adequately ensured. In this context, IRENA should identify programmatic areas that could be expanded through targeted resource mobilisation. It is important, however, that the programmatic coherence of IRENA's activities is retained. The experience in the development of the current work programme whereby a number of activities were proposed, but remained subject to additional voluntary contributions, could be used as a model for future programmatic cycles.

28. Alternatively, IRENA could establish multilateral thematic trust/special funds to be sponsored by different donors over several financial periods. Thematic funds could include broad areas that have proven to be of substantive and strategic pertinence to IRENA Members, such as renewable energy and climate, capacity building, or innovation. Such resources would provide the flexibility for expansion across the programme of work, lessen the administrative burden on the organisation and donors alike, and allow the Agency to be agile and needs-based.

29. In the course of preparation of the Work Programme of Budget for 2016-2017, IRENA should develop a strategy for resource mobilisation that could contribute to the growth of its programmatic activities, and identify the potentials and modalities for different sources of funding and in-kind contributions. The fundraising strategy should focus on three key elements: i) the establishment of a multi-year non-core funding framework and baseline; ii) possible funding mechanisms to sustain the delivery capacity of the Agency; and iii) the organisational aspects for the effective coordination of the fundraising functions.

30. IRENA should consider a diverse range of potential sources of funding and in-kind contributions. This could include:

- Donor governments (including at the local level),
- International intergovernmental funding entities,
- Non-governmental sources including private companies,
- Secondment of personnel,
- In-kind contribution of expertise,
- Other sources, such as independent foundations.

31. The resource mobilisation strategy should also consider the creation of partnerships that could contribute to the achievement of IRENA's objectives, where partners could engage in a joint action, but may or may not contribute funds. In particular, this should cover partnerships with national and local governments in programme countries, regional organisations, NGOs, private companies, independent foundations, and academic and research institutions. This should however be accompanied with clarity in the concepts, benefits and limits of such partnerships and the assessment of resources required to realise their full potential.

## **V. Conclusion**

32. The above note highlights the key elements that need to be taken into account when considering options for future funding. It notes the explicit link between resources and the Agency's ability to deliver its mandate. It also recognizes the necessity to diversify IRENA's funding base, while ensuring predictability of core resources, sufficient to enable the continuity of the Agency's programmatic activities in the fast changing renewable energy sector and with an expanding membership. Therefore, a resource diversification and mobilization strategy would be developed based on consultations with Members as part of the proposed Work Programme and Budget for 2016-2017.