Global efficiency and renewable energy fund

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PURPOSE: to propose a EUR 100 million global risk capital fund for developing countries to boost energy efficiency and renewables.

BACKGROUND: in recent years the global economy has been witnessing unprecedented growth. Since 1994 global oil consumption has increased by 20% and is projected to grow by 1.6% per year. According to the IEA world energy demand is set to increase by more than 60% by 2030. This will create considerable challenges in terms of greenhouse gas emissions; air quality; poverty; the sustainable management of natural resources and the security of energy. The need to ensure sustainable development calls for profound changes in the way energy services are delivered and energy sources are used. For this reason, in 2002, the Heads of States agreed to urgently and significantly increase the share of renewable energy in the global energy mix. The challenge for the public sector, however, is to encourage private sector investment in renewable energy technologies.

CONTENT: the purpose of this Commission Communication, therefore, is to explore current barriers for private sector participation (particularly in developing countries) in the deployment of renewable energy and energy efficiency technologies and to propose a Public Private Partnership, to be referred to as « Global Energy Efficiency and renewable Energy Fund ».

Barrier to mobilising sufficient private sector finance

IEA estimates suggest that by 2010, $ 241 billion will need to be invested into renewable energy generation. The associated need for risk capital in developing countries and transition economies alone is estimated at over $ 10 billion or EUR 9 billion. Despite some positive developments concerning the financing of renewable energy (for example roughly 70% and 40% of investment in electricity generation in South America and in Asia, respectively, is projected to be in the renewable sector) renewable energy projects and businesses continue to face significant difficulties in raising sufficient finances for investment. This is largely due to the fact that the initial capital costs of renewable energy technologies are 3-7 times higher than those of conventional fossil fuel generation. Other factors contributing to slow private sector investment in renewable energy projects include the need for added assurances from investors in renewable energy projects in non-OECD countries as well as higher transactions costs associated with SME participation when compared to lower costs associated with large scale fossil fuel power plants. All of these factors combined make it less interesting for conventional risk capital providers to invest in renewable energy projects in developing and emerging economies.

The Global Energy Efficiency Renewable Energy Fund

For the reasons outlined above, the Commission is proposing to set up a concrete and innovative Public Private Partnership, to be referred to as the « Global Energy Efficiency and Renewable Energy Fund » (GEEREF).The purpose of this Fund will be to mobilise private investments in developing countries and emerging economies. It will complement ongoing efforts for improving the policy framework in a bid to accelerate sustainable development and a swifter deployment of renewable energy technologies. Given the limited amount of public sector finance, an innovative financing instrument that maximises the leverage of public funds is seen as hugely advantageous. Private sector access to risk capital through public provisions of patient capital appears to be a promising route given that the risks are spread.

The proposed budget for GEEREF, between 2007-2010, is EUR 80 million, with an initial contribution of EUR 15 million in 2008 to kick-start the initiative. Total initial funding from public and commercial

sources of EUR 100 million is anticipated. An additional mobilisation of EUR 300 million and possibly up to EUR 1 billion in the longer terms, is expected in the form of risk capital.

Putting the innovative PPP into practice

Particular focus will be given to the risk capital gap. This includes, for example, the scaling up of successful pilot schemes. International finance institutions such as the EIB, EBRD and the World Bank, private sector investors and other financial intermediaries have already lent their support to the Commission for the GEEREF.

In terms of its legal status the GEEREF will be set up under private law but with a public sector mission. It will offer new risk sharing and co-funding options for various commercial and non-commercial investors with a global investment mandate. Rather than providing financing directly to the target groups, GEEREF will actively engage in the creation and funding of regional sub-funds or in scaling up similar existing initiatives. The fund will support renewable energy and energy efficiency projects as well as SME's. Attention will be given to projects below EUR 10 million as these are the most frequently side-lined by commercial investors and IFIs. In addition to utility-based projects, investments will focus on manufacturers, consumers, SME and micro-finance intermediaries.

Sub-funds will be channelled into Sub-Saharan Africa, the Caribbean and Pacific Island States (the ACP region), countries listed under the European Neighbourhood (North-Africa, non-EU Eastern Europe including Russia), Latin America and Asia. Capital will be provided at affordable « patient » terms whereby the degree of patience will reflect the degree of local and global benefits offered by sub-funds and their underlying projects. GEEREF participation will range from between 25 – 50% for medium to high risk operation whilst low-risk projects will benefit from 15% GEEREF funding.

In addition the proposed Fund includes dedicated technical assistance financing. These will amount to 10-20% of the total fund size. Investment scope will include a broad mix of project types and energy efficiency and renewable energy technologies. Emphasis will be given to deploying environmentally sound technologies with a proven technical track record and account will be taken of science-based knowledge that results from such programmes.

It is expected that once up and running GEEREF could bring almost 1 Gigawatt of environmentally sound energy capacity to developing country markets, serving 1-3 million people with sustainable energy services.