

Effective Green Financing: What have we learned so far?

“Scaling Up Financing to Expand the Renewables Portfolio”
Workshop hosted by the IEA Renewable Energy Working Party

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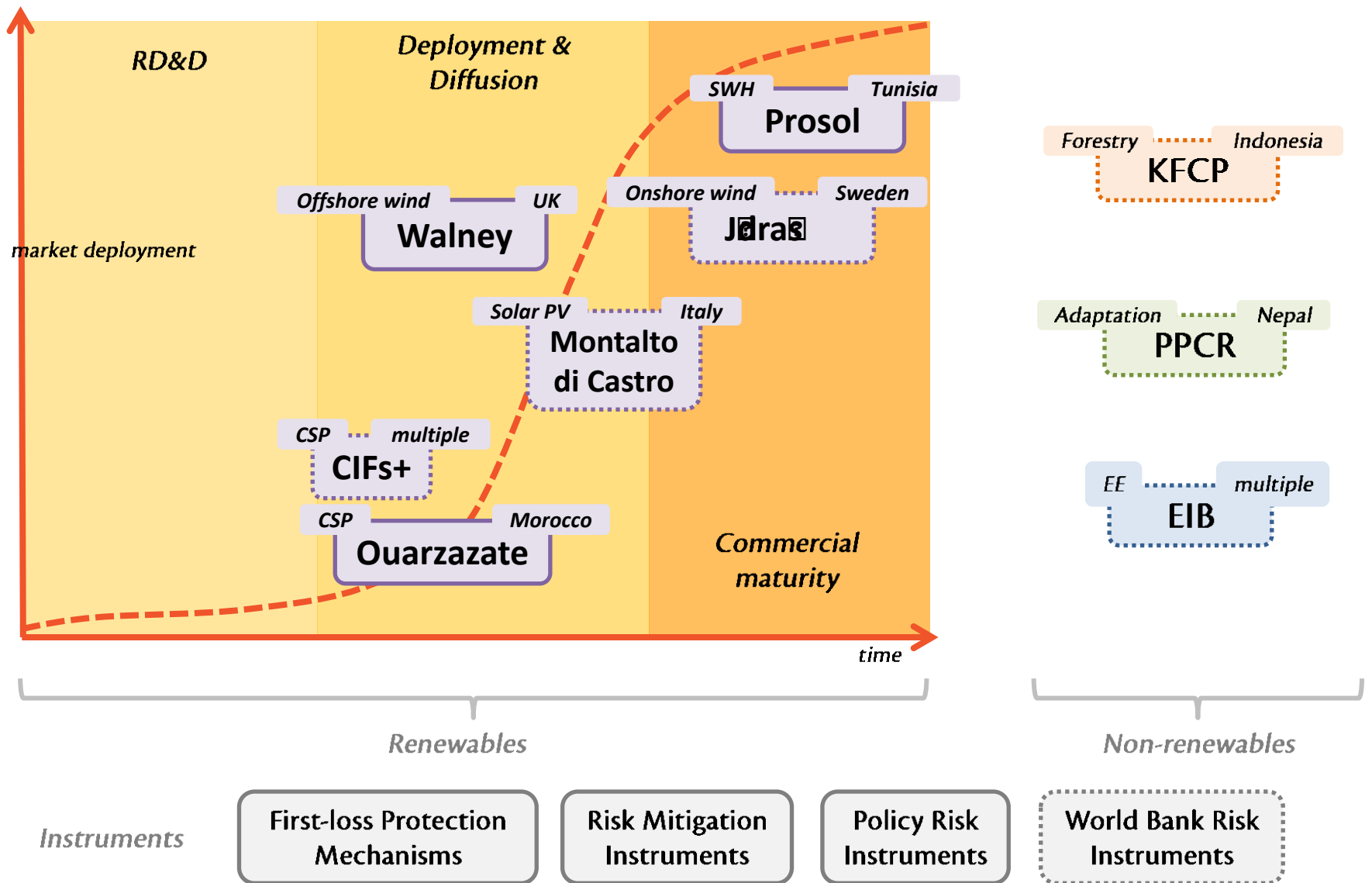
The **San Giorgio Group** assembles financial intermediaries and institutions actively engaged in green, low-emissions finance

- Core framing inquires

- What is the role and reasons for public finance?
- What are the best delivery mechanisms for public monies?
- How can international and national public investment flows be aligned with each other and with private investments?
- How do we ensure learning?

➔ Systematic analysis of case studies and tracking of existing green investments to understand effective investment to scale up

SGG case studies overview



Offshore-wind and CSP case studies

Ouarzazate I Morocco

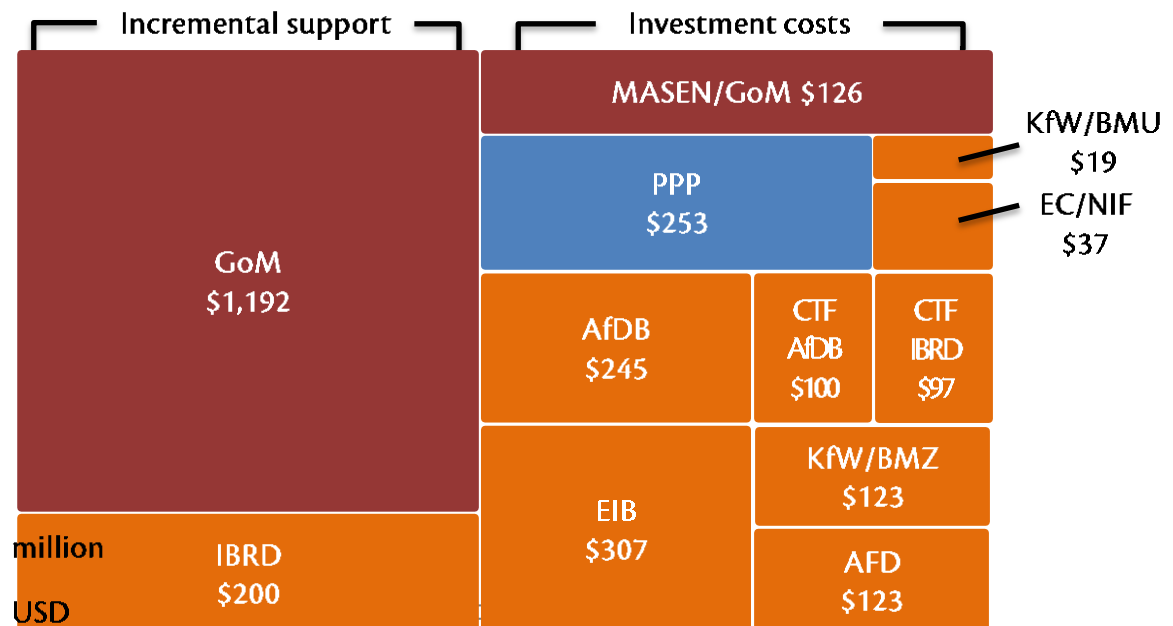
Goal

- To develop a large scale Concentrated Solar Power plant that can pave the way for a portfolio of CSP in Morocco and the region

Challenges

- Early development stage tech → viability gap
- High capital cost → lack of commercial finance
- Multiple partners → cooperation & coordination

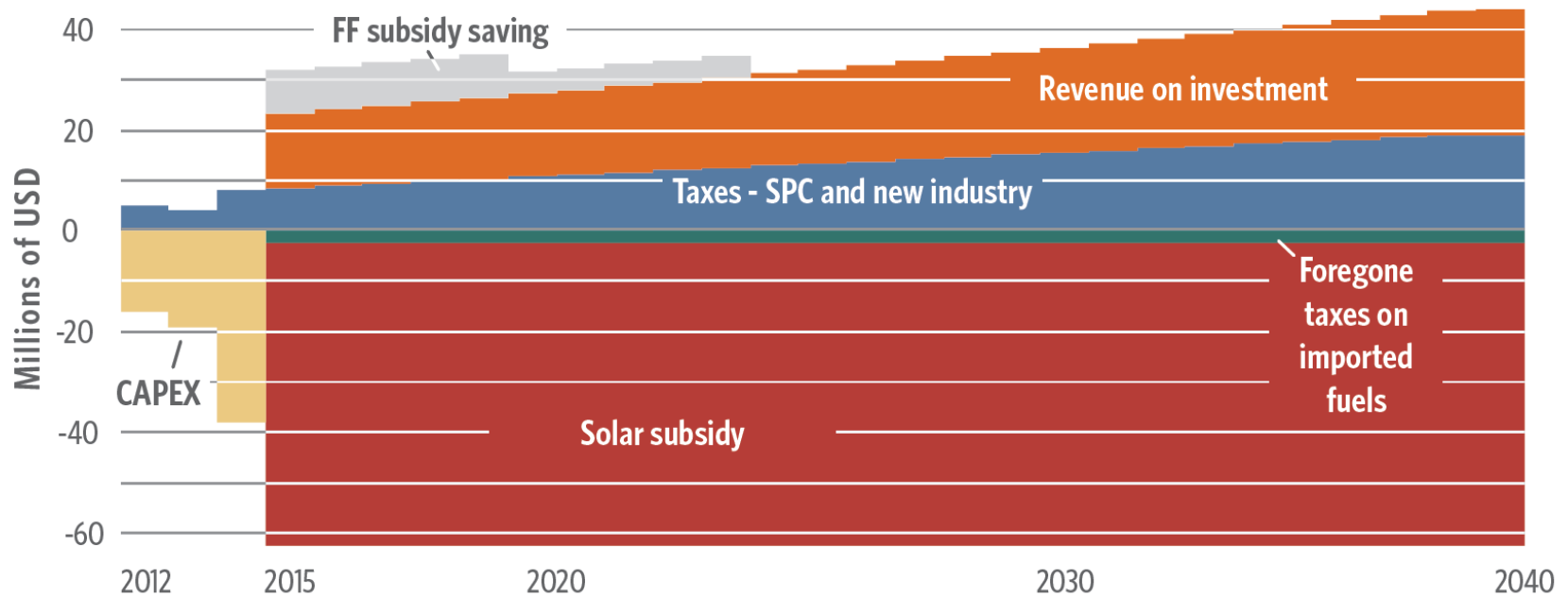
Instruments



Ouarzazate I results

- Strong coordination and private sector involvement
 - Generation costs reduced by 25%
 - Lower than expected bids

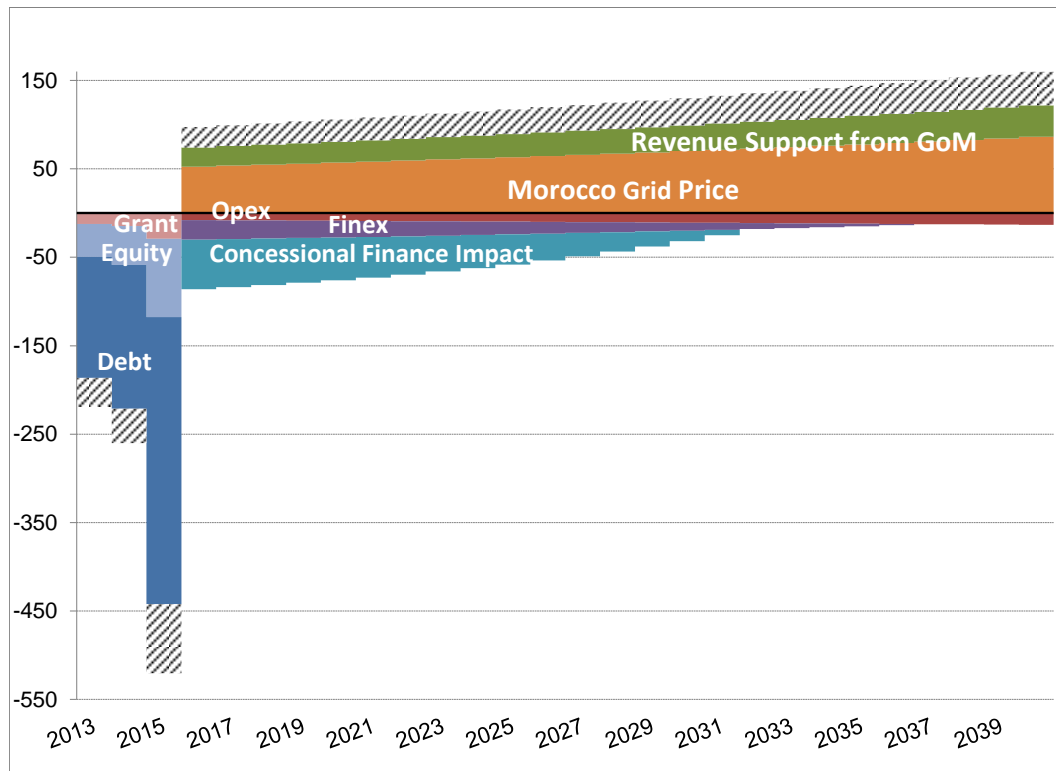
Government of Morocco Ouarzazate I cash flows



Ouarzazate I results - revised

- Sept 2012: winning bidder ACWA Power International – 21% lower than the second best offer, 25% lower than initial forecasts
 - Implications: lower capital costs, lower concessional financing, lower incremental support from the GoM

Government of Morocco Ouarzazate I cash flows



illustrative

Walney Offshore Windfarms

Goal

- To attract financial investors to take minority stakes in the World's largest offshore windfarms (GBP 1.3 bn)

Challenges

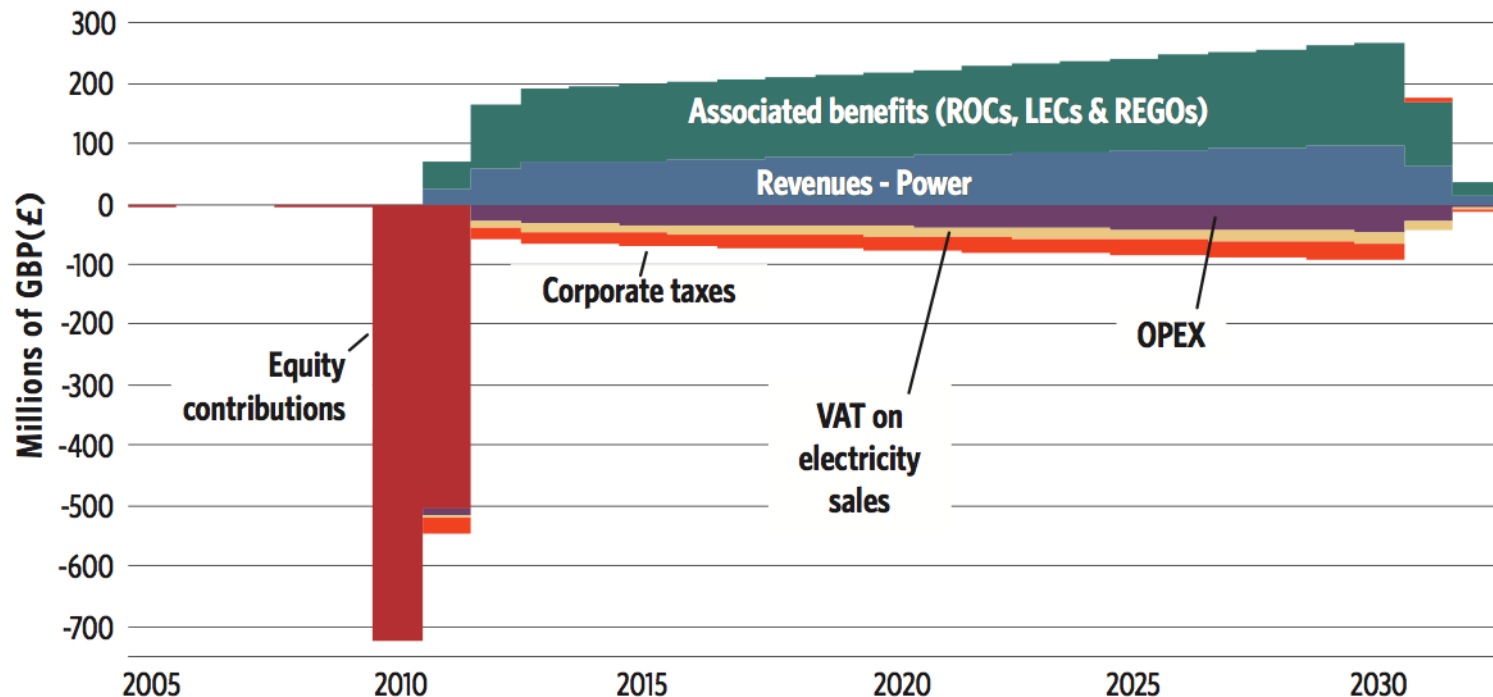
- Cost of offshore wind → Technology and project-specific
- Risk of offshore wind → Construction & operations
- Difficulties in financing → Utilities / project finance

Instruments



Walney's results

- 8-10% expected IRR + additional sources of return
 - GBP 1.3-1.5 bn. worth of incentives
 - Tax collection + 8.3 MtCO₂ avoided



Early lessons

Early lessons for effective green finance

- Well articulated public policies are necessary to transition toward low carbon systems of production and can be delivered through multiple instruments.
- Well designed resource injections can alter investment risks and change private behaviors at acceptable cost.
- The need for public resources to leverage private sector funds is one factor, but effectiveness needs to be considered across all dimensions
- Green investment should focus on emerging economies, where energy demand is growing and opportunities exist to install green infrastructure

The risk gap

Risk, whether real or perceived, is the single most important factor impeding investment in renewable energy projects

- Gaps in risk coverage in developing and developed markets, particularly for policy risk and financing risks
- New risk mitigation instruments are needed. They need to:
 - address investor specific needs
 - improve underlying creditworthiness
 - improve certainty around timing, costs and enforceability
 - have sufficient scope to have transformative impact

 Development financing institutions and the public sector have significant opportunities to fill these gaps

...helping nations spend their money wisely



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Further Reading

- Information about the San Giorgio Group may be found at:
<http://climatepolicyinitiative.org/venice/san-giorgio-group/>
- SGG case studies may be found at:
<http://climatepolicyinitiative.org/publication/san-giorgio-group-case-studies/>
- The *Risk Gaps* publications may be found at
<http://climatepolicyinitiative.org/publication/risk-gaps/>
- The *Effective Green Financing: What have we learned so far?* publication may be found at
<http://climatepolicyinitiative.org/sgg/files/2012/12/Effective-Green-Financing-What-have-we-learned-so-far.pdf>