The Lab
Global Innovation Lab for Climate Finance

Renewable Energy Scale-up Facility (RESF)

Total renewable energy investment in developing countries falls far short of what's needed to prevent catastrophic climate change and develop low carbon economies. In particular, renewable energy project developers in many emerging markets do not have access to the capital needed to get new renewable energy projects off the ground. These critical earliest stages are the period in which project costs are comparatively low, around 1%-5% of total project costs, but where the risks to investors are the highest.

The Renewable Energy Scale-up Facility employs an innovative options mechanism to drive private-investment into the earliest-stages of renewable energy projects and grow project pipelines.

The Renewable Energy Scale-Up Facility (RESF) is a solution to drive private institutional equity into earlier stages of renewable energy projects in emerging markets. Proposed by Baker & McKenzie and Get2C, the Facility will deliver financing to projects in increments as they achieve key development milestones, in exchange for the option to buy equity at financial close, at better-than-market rate terms. The Facility's innovative options financing mechanism gives investors a new tool for managing risks more effectively. In addition, by aggregating and de-risking medium-scale solar and wind projects, RESF intends to address institutional investment requirements while channeling finance to build robust project pipelines.

RESF's first fund will target developing countries that have strong investment environments and significant renewable energy potential in Latin America and the Caribbean, Middle East North Africa, and Southeast Asia. Its first fund could help finance 370 MW of solar and wind, generating enough clean energy to cover the annual electricity consumption of, for example, more than 850,000 people in Vietnam.

RESF expects to deploy 370 MW of clean energy with a mix of commercial and concessional capital in a first fund. Once the concept is demonstrated, RESF expects to be sustainable and replicable with solely commercial capital.

To move toward a first fund, the Facility will first need to secure financing to undertake an in-depth feasibility study for a single region and prepare for its launch, which will take up to 12 months. During this time, the Facility's management will confirm local partnerships for project origination and technical services; identify local developers to participate; undertake financial modeling with highly localized data; develop the application process for projects; and establish the legal and financial structures for the Facility. The first fund could launch within one to two years.

RESF aims to raise USD 110 million for a first fund. USD 10 million of the fund will target recyclable grant funding from donors intended to demonstrate the options mechanism. The remaining USD 100 million will invest equity in projects and will target commercial investors, including pension funds, and catalytic concessional investors to help demonstrate

the concept. Illustrative modeling suggests the Facility could increase investors' returns over the status quo and leverage an estimated 25 dollars of commercial investment for every dollar of public investment.

Reflecting the urgency of the climate challenge and the need to grow project investment pipelines in emerging economies, RESF's model can be deployed very quickly once investment is raised.

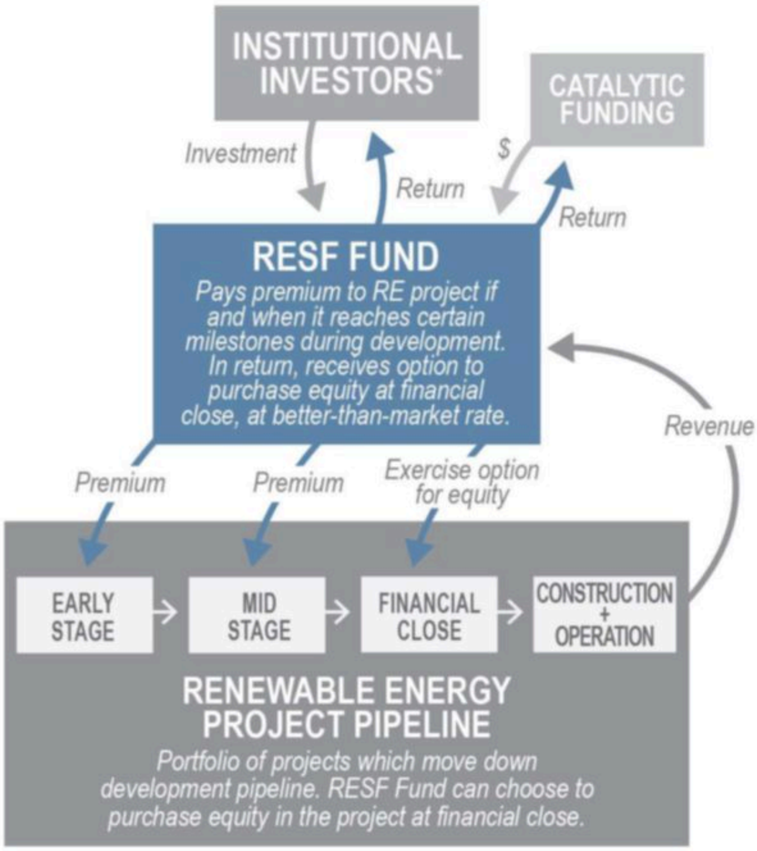
DESIGN

The Facility will own two types of assets:

1. Options in renewable energy projects that are purchased at the early- to mid- stage of project development. The price of the option will be expressed as a preferential internal rate of return (IRR) that RESF will receive relative to prevailing market conditions. The Facility can elect to make options premium payments at two to three pre-agreed project development milestones if and when they are met. The Facility's portion of total development costs for a given project will range from 10-49%, depending on project needs expressed in developers' proposals and ensuring that developers retain financial incentives during the development process. The Facility will invest only in mature technologies, such as PV solar and onshore wind, to reduce technology risk.

2. Upon exercise of options at financial close, shares in successful projects.

When a project reaches financial close, the Facility will have the option to draw down investors' committed capital and invest equity in the project so that the project may proceed to construction and operation. RESF will seek to maintain its shares in operational projects on behalf of its long-term institutional investors, for whom these long-term investments will be a key incentive to participate. If RESF does not exercise its option to invest equity, it can sell this option to other investors, or it can treat the option as a repayable loan. Loan repayments will be re-invested in new projects.



*Initial implementation phase also draws on finance from DFIs and other investors

The Global Innovation Lab for Climate Finance is a public-private initiative that supports the identification and piloting of cutting edge climate finance instruments. It aims to drive billions of dollars of private investment into climate change mitigation and adaptation in developing countries.

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