

8th Forum on Energy For Sustainable Development



The Role of Public Finance Institutions in Scaling up Renewable Energy Investment

Henning Wuester

Director – Knowledge, Policy and Finance Centre, IRENA

Astana, Kazakhstan

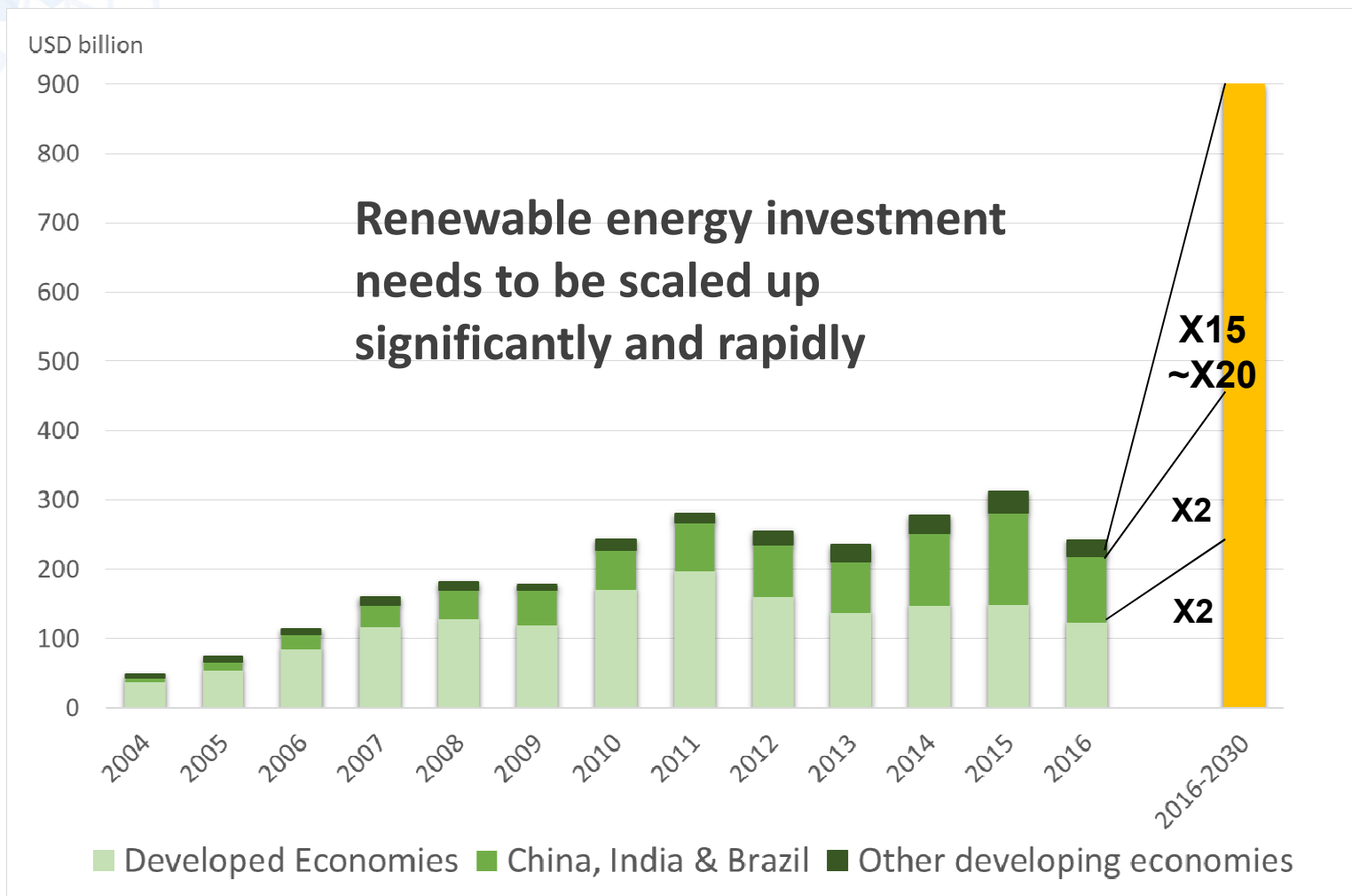
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Renewable energy investment trends



Source: IRENA using BNEF data (2017)

Renewable energy investment trends and needs for the energy transition



Source: IRENA using BNEF data (2017)

Renewable Energy Investment Trend in Central Asia (2005-2016)

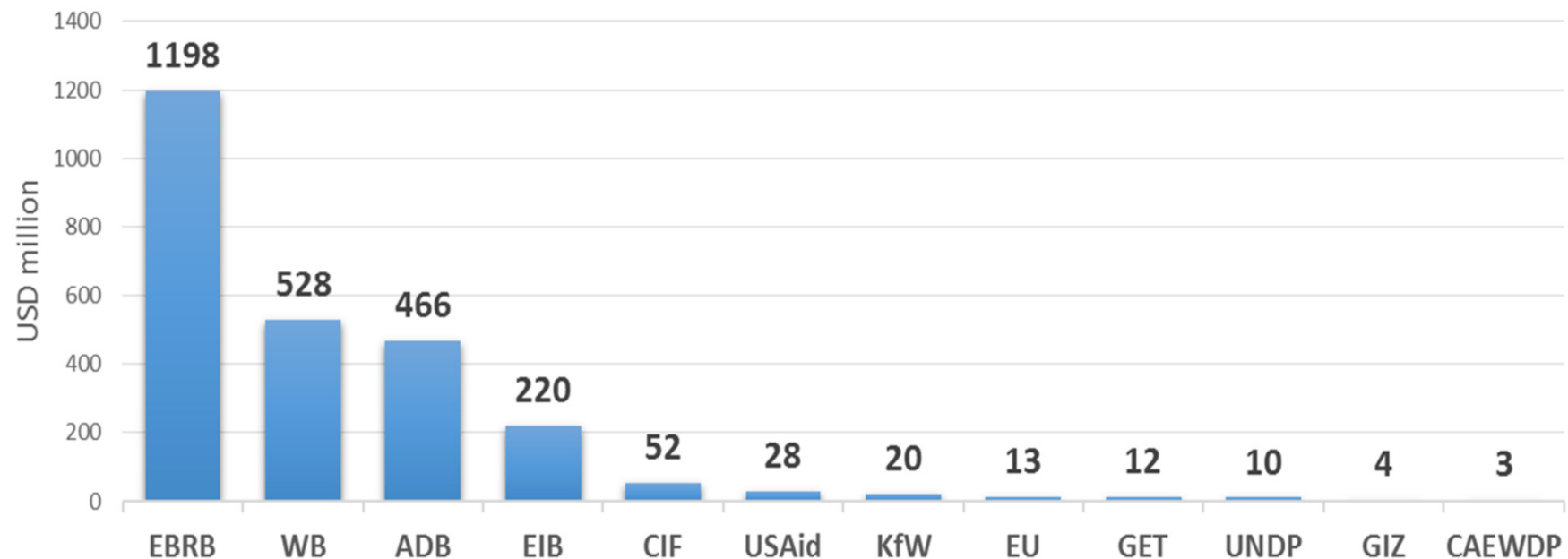
Total RE
Investment in the
region during the
12 year period:
**USD 2,552
million**

Annual
average:
**USD 213
million**

Less than 1/10 of
the annual average
investment in the
MENA region
(2005-2015)

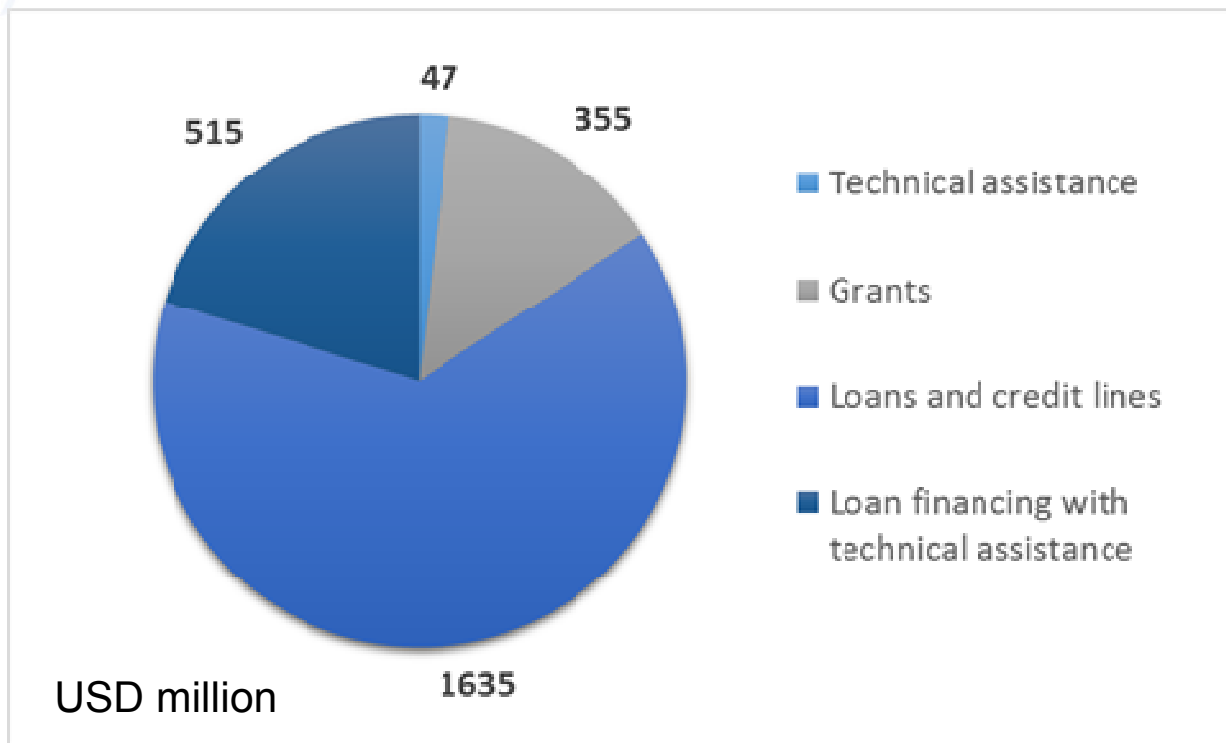
Central Asia has attracted limited amount of investment in renewable energy so far

Renewable Energy Investment Trend in Central Asia (2005-2016) – by institution



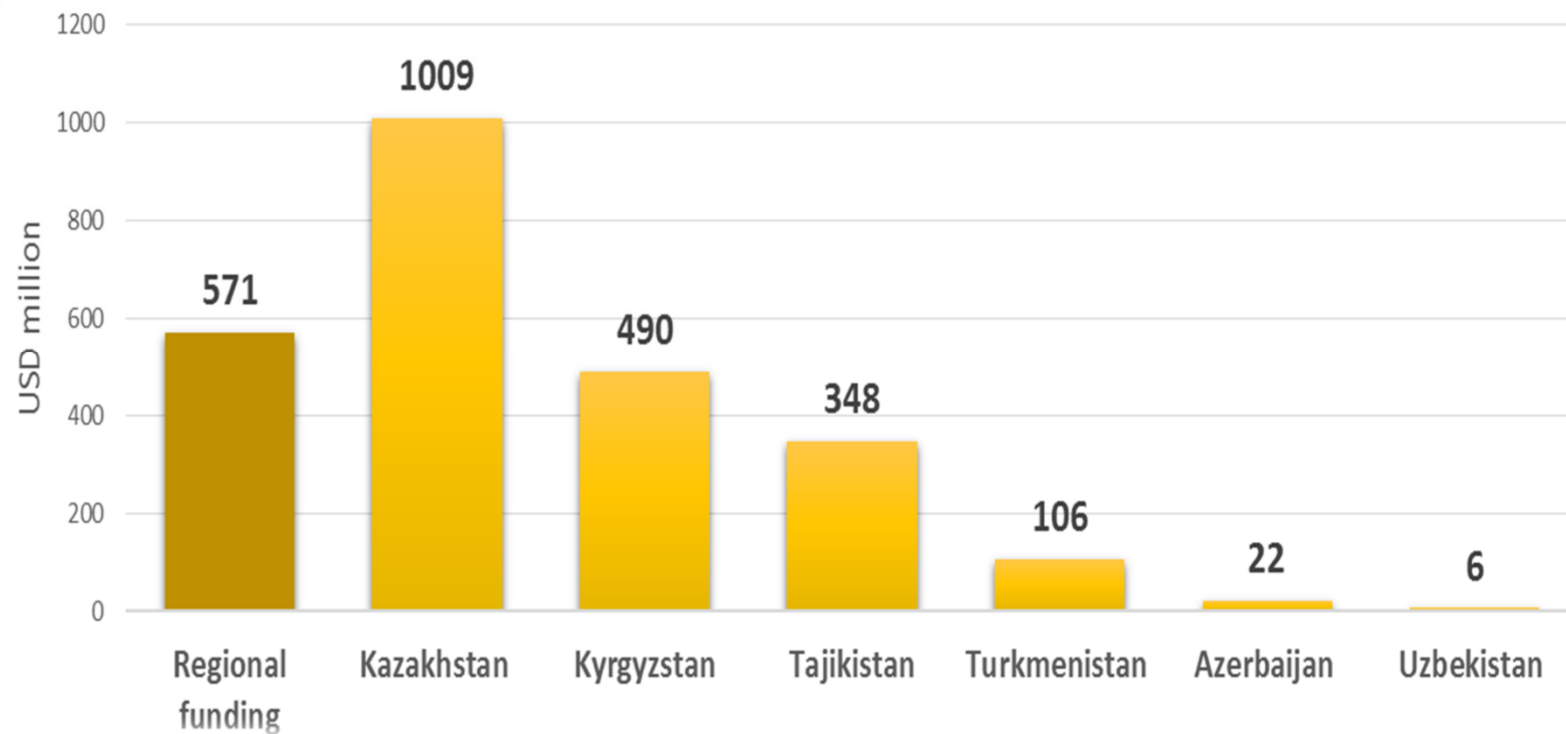
Most of the RE investment was driven by the public sector capital

Renewable Energy Investment Trend in Central Asia (2005-2016) – By Financing Instrument



Financing from public institutions was channeled mainly through loans, grants and credit lines.

Renewable Energy Investment Trend in Central Asia (2005-2016) – By Country



Over USD 1 billion invested in Kazakhstan over the period of 2005-2016.

How to scale up renewable energy investment

UNLOCKING RENEWABLE ENERGY INVESTMENT:

THE ROLE OF RISK MITIGATION
AND STRUCTURED FINANCE

- » Based on surveys and case studies
- » Identifies five action areas and suggests practical recommendations



Key challenges in unlocking renewable energy investment

Limited access to capital

- Limited experience with renewables in the financial sector
- Lack of pipeline of investment-ready projects
- Limited access to capital at local level

High (perceived) risk

- Political risk
- Policy and regulatory risk
- Counterparty risk (power off-taker risk)
- Grid interconnection and transmission line risk
- Currency risk
- Liquidity and refinancing risk
- Resource risk
- Technology risk

Small deal size – high transaction cost

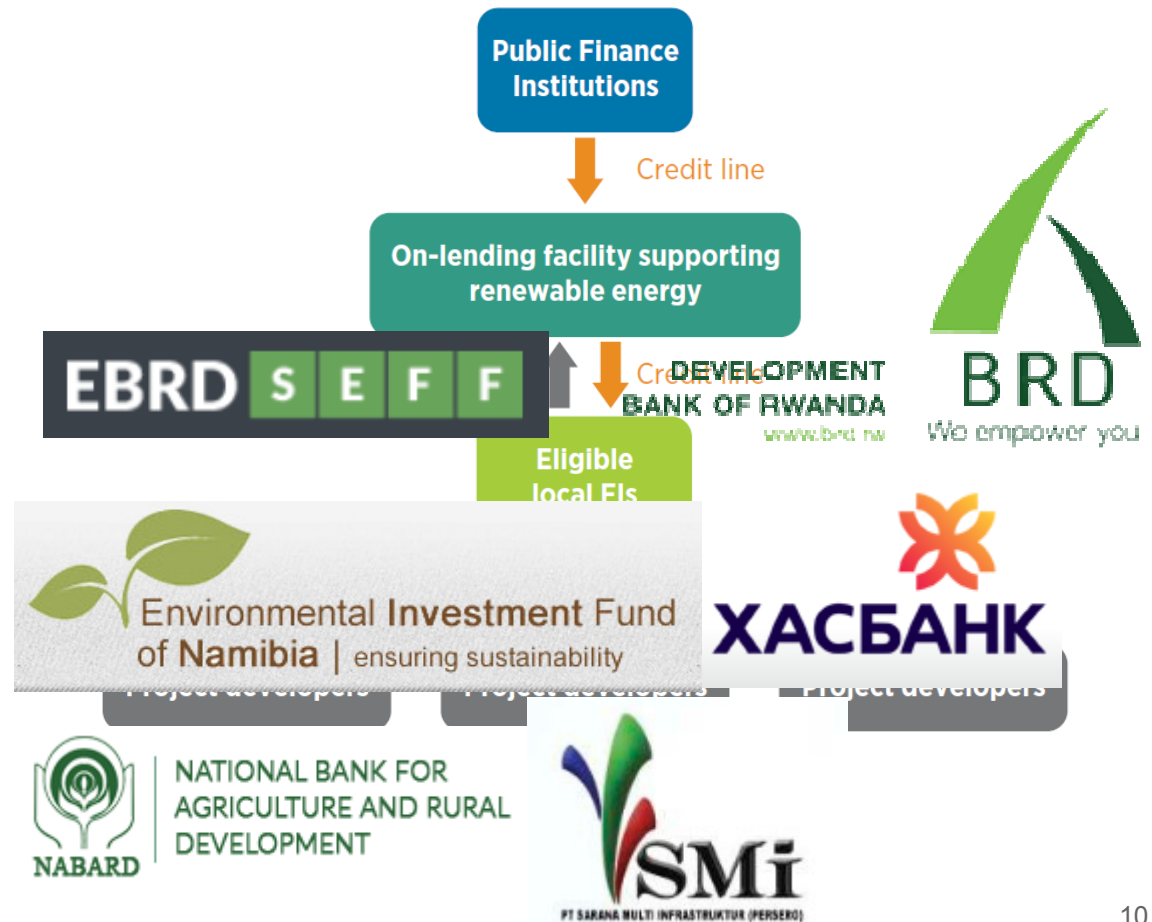
- Insufficient investment size and high transaction costs
- Financial regulations restraining illiquid and riskier investments

Improve access to finance at the local level

Acting as intermediaries

On-lending facilities

Connecting climate finance to projects



Mitigate risks

Mobilizing private finance

Risk mitigation instruments

Credit enhancement tools

Blended capital

Case Study: Sarulla Geothermal Power Project (Indonesia)

Risk mitigation instruments

- Contingent equity tranche
- Government PPA guarantee
- Political risk insurance from JBIC
- Interest rate swap

Example of risk mitigation instrument (Chile)

The Chilean state-owned CORFO

- Provides credit line targeted at hedging part of the risk of private capital funds
- Triggered the emergence of Chilean venture capital funds interested in renewable energy

Source: IRENA (2016)

Mobilize capital markets

Scaling up investment volumes

Standardized contracts

Aggregation and securitization of assets

Capital market instruments

Case Study: Walney offshore wind farm (UK)

UK Green Investment Bank

- Standardized contracts and aggregated financial package
- Organized the bank consortium and refinanced 70% of the equity holding into a seven-year fixed term loan

Case Study: Solar sisters (Jordan)

IFC

- Established standardized terms and templates almost identical across all projects
- Aggregated projects for funding
- Negotiated terms on behalf of developers and investors with gov. entities and advisors

Way forward – the role of public finance institutions

- Through scaled up investment in renewables and energy efficiency the world can transition to a sustainable energy mix and meet its climate and development objectives
- Scaling up investment can build on the strong business case for renewables and attract private finance
- Public finance institutions can play a critical role in:
 - Facilitating access to finance at the local level;
 - Mobilizing private finance;
 - Broadening the investor base to institutional investors
- Need for dedicated mandates and structures focusing on renewable energy



Thank you!