



Mediterranean and National Strategies for Sustainable Development

Priority Field of Action 2: Energy and Climate Change

Following up the « Energy and climate change » chapter of the Mediterranean Strategy for Sustainable Development (MCSD)

European Commission - Questionnaire

Mr Thomas VERHEYE, European Commission

Plan Bleu

Regional Activity Centre

Sophia Antipolis

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Key Elements of the Proposal to Establish the Global Energy Efficiency and Renewable Energy Fund (GEEREF) -- A follow-up of the Patient Capital Initiative

The Context –Despite encouraging and new prospects and robust technology track records, renewable energy projects and businesses continue to face significant difficulty raising sufficient finance for investment. The financing gaps are mainly concentrated in the area of equity finance, in particular in developing countries. An estimated \$9 billion risk capital is needed for renewable energy generation in developing countries until 2010. The high potential of renewables to generate a multitude of socio-economic and environmental public goods, both locally and globally, merits public support to solve this financing grid-lock and to provide public incentives to the international and domestic private investors. In the wake of limited public finance, the need to establish an innovative public-private financing instrument that can maximise the leverage of public funds is a priority.

The Communication –will describe the problems and opportunities and will contain a proposal to **establish an innovative Global Energy Efficiency and Renewable Energy Fund (GEEREF)**. The objective is to mobilize public and private finance to help solving the financing grid-lock for economic renewable energy projects and businesses.

Background –The proposal draws on the **Patient Capital Initiative (PCI)** launched by the EC in 2004 in the context of the **Johannesburg Renewable Energy Coalition (JREC)**. It builds on a 2004 feasibility study that assessed various options for designing a new targeted public-private financing partnership. The scoping was guided by the debates at the 2002 **World Summit for Sustainable Development (WSSD)** and the first international high-level conference of the Johannesburg Renewable Energy Coalition (JREC) held in Brussels (2-3 June 2003). Interim results were presented and discussed inter alia at the **International Renewable Energy Conference (Bonn, June 2004)**. Contributions were also made by the EIB, KfW, the UNDP and the IFC. A follow-up contract to implement the GEEREF has been awarded to a fund management team led by Triodos Bank. A brief status report was provided at the 2005 Beijing Renewable Energy Conference. The proposed GEEREF strongly builds on recently published **Energy Green Paper** and the forthcoming **Thematic Programme for the Environment, Natural Resources, including Energy** which will complement the EU's external actions in this field.

The Structure –The GEEREF will be set up as a **global public-private partnership**¹. It will offer suitable risk sharing and co-funding options for various **commercial and non-commercial investors** with a global investment mandate. It will allow engaging **professional fund managers** on a self-sustaining basis. High-quality monitoring, reporting and control features will be provided through the structure. Rather than providing finance directly to the target groups (see below), GEEREF will actively engage in the creation and funding of **regional sub-funds** or scale up similar existing initiatives. This will allow to accommodate specificities of the regional markets and to bring in local expertise and to leverage additional private sector funding.

The Geographical Scope –The GEEREF will support regional funds for **Sub-Saharan Africa**, including the Caribbean and Pacific **Island States**, **Latin America**, **Asia**, **North-Africa** and

¹ Most likely a body set up under private law with a public sector mission.

Neighbouring Countries. Priority will be given to investments in countries with supportive renewable energy policies that are conducive to private sector engagement.

The Technology Scope—The scope will include a **broad mix** of energy efficiency and renewable energy technologies. The emphasis is on deploying technologies with a **proven technical track record** in regions that are currently ignored by commercial investors. Small hydro and biomass comprise a large part of investment prospects, with on-shore wind also offering significant potential. Photovoltaics possibly remain too costly for all but middle and high-income contexts. Co-firing solutions (e.g. co-firing coal and bagasse), energy service companies, and other small and medium scale clean energy solutions will also qualify.

The Beneficiaries and Products—The GEEREF will support renewable energy and energy efficiency **project developers and SMEs**. The focus will be on **projects below €10 million** as these are mostly ignored by commercial investors and IFIs. In addition to utility-based projects, investments will include manufacturing and assembly businesses, consumer, SME, and micro-finance intermediaries. GEEREF will increase the provision of risk capital in areas where there was previously non available. The main financial products that are expected to be on offer include equity and quasi equity that will require *triple bottom line* returns.

Type of support —The major part of the GEEREF will be used to provide **"affordable" risk capital** to different types of investment projects in the field of renewable energy. In addition, the fund will include a **technical assistance** facility (ca. 10 % of the total fund size) to engage local and international technical expertise for improving project proposals and business plans. This combination will make the fund a **'one stop shop'** which will reduce transaction costs and improve overall performance of the fund.

Fund-size and Leverage potential – The funding target for the GEEREF is set at **€ 100 million** to allow for global coverage (see above). Depending on the share of private sector involvement, GEEREF's **leverage factor is expected to be as high as 10.** This is considerably higher than for conventional grant-based support schemes that ask for co-funding in the range of 50 – 70%. Assuming that a first financial close in the order of €100 million is feasible, additional risk capital of **at least € 300 million could be mobilised up to €1 billion under ideal conditions.**

Funding Sources –A significant contribution from the Commission is essential to kick-start the initiative and to trigger substantial private sector co-funding. A majority Community contribution payable over 3 years is currently under review. Several International Financing Institutions, Member States and commercial organisations have already shown an interest in co-financing this initiative, including the European Investment Bank and the European Bank for Reconstruction and Development. Further commercial funding will be raised through the sub-fund structure and at the project and SME level.

Timing – Adoption of the Communication by the College is currently foreseen for end September 2006, ahead of the 12th Conference of the Parties of the UN Framework Convention on Climate Change. The GEEREF and first regional sub-funds could be **launched by mid 2007**, in time for the 15th Session of the UN Commission for Sustainable Development will end its review of the commitments made during the 2002 WSSD with respect to the energy sector.

Promotion of renewable energy –The international policy context

In 2002, Heads of State agreed to the “Johannesburg Plan of Implementation” (JPOI), which was adopted at the World Summit for Sustainable Development (WSSD). The JPOI states in paragraph 20e that there is a need to "...with a sense of urgency, substantially increase the global share of renewable energy sources with the objective of increasing its contribution to total energy supply".

The conclusions also recognized «...the role of national and voluntary regional targets as well as initiatives...» but stopped short of setting concrete targets.

In response to the lack of targets, the EU and other like-minded countries issued a declaration entitled “The way forward for renewable energies”. They committed themselves to implement the JPOI commitment on renewables through co-operative action on the basis of national and/or regional targets and timetables. Together, these countries form the so called Johannesburg Renewable Energy Coalition (JREC). To date, JREC counts 88 members (up from 66 initially) and is co-chaired by the EC and the Government of Morocco. Government delegates from China and Canada have recently expressed an interest in joining JREC. The EC also hosts the JREC Secretariat (ENV C1).

In June 2003, the European Commission hosted the 1st High-level International JREC Conference. About 50 countries participated. The conference focused on the regional status and potential of renewable energy use and on issues related viability and affordability of RES investments that would need tackling in order to increase the share of renewable energy in the global energy mix. The conference reiterated the importance of target-based policies and identified the need to strengthen access to affordable risk capital through innovative public-private partnerships. The activities are focused on achieving substantial progress on renewables via the CSD process, in particular through clear political commitments and appropriate review mechanisms.

The June 2004 Bonn Conference hosted by the German Government (“World Conference for Renewable Energy” or, “Renewables 2004”) is generally regarded as one of the major events since Johannesburg on advancing renewable energy policies. The main outcome --included in the political declaration—was the agreement to establish an international renewable energy multi-stakeholder network and the adoption of an international action plan containing more than 200 commitments by governments, IFIs and non-governmental actors to develop specific actions. The Bonn Declaration and the Commitments made by the EC are listed in separate documents.

In November 2005, China’s National Development and Reform Commission (NDRC) hosted the Beijing International Renewable Energy Conference (“BIREC”). The outcome was captured in the “BIREC Declaration” which was unanimously endorsed by all participating governments including EU governments, US, Japan, Australia, Brazil, Argentina and other Asian, African and Latin American countries. It includes an agreement in principle to track progress of the global share of renewable energies on a periodical basis. This is generally accepted as a success considering that the issue of systematically assessing progress has always been sensitive. The conference marked a notable change towards strengthened international co-operation on renewable energy. Discussions reflected a growing comfort amongst policy makers related to the economic viability of a growing range of renewable energies; there was a broadening of the understanding that renewable energy technologies address a range of pressing international problems such as climate change, security of energy supplies and poverty, even if priorities differ in accordance with the status of development. Countries that until recently shunned any target related language reported recently adopted targets at national or sub national level.

In the period 2006-2007, the energy related commitments made at the 2002 WSSD are being reviewed during 14th and 15th Session of the UN Commission for Sustainable Development (CSD 14/15). In the run up to CSD 15, a ministerial JREC declaration was adopted in Dubai (February 2006) to ensure that renewable energy would feature high on the CSD agenda. At the recently concluded CSD14 meeting (New-York, April 2006) there was a remarkable consensus on the need to accelerate the penetration of renewable energy in the global energy markets. In New York, JREC members identified 3 priorities for the upcoming CSD15 meeting to be held in New York in May 2007, i.e.:

- Identification of the necessary strategies and policies that are needed to accelerate the uptake of renewable energy;
- Development and implementation of innovative public-private financing partnerships that can help overcome the lack of access to affordable risk capital;
- Establishment of a meaningful and efficient follow-up arrangement to regularly review progress made against the JPOI objective to “with a sense of urgency, significantly increase the global share of renewable energy [...]”, as agreed at the WSSD, Bonn, Beijing and Dubai conferences.

These objectives were endorsed by the EU.