

Renewable Energy Finance Asia
June 15&16, 2005, Hong Kong

Sustainability and Financing
— Opportunities for Investors

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**JAPAN BANK FOR
INTERNATIONAL COOPERATION**



UNEP Finance Initiative
Innovative financing for sustainability



Renewable energy—an overview

- Conventional fuels are a finite resource, entailing risks to sustainability.
- A number of benefits compared to conventional fuel energy, for example, energy security, a stable climate, cleaner air, and perhaps new business opportunities.
- The market for clean energy technologies could be worth 1.9 trillion dollars by 2020 (*UNEP FI CEO briefing 2002*).



Implications for the financial sector

- The financial sector would be able to play a key role in developing and promoting the renewable energy market.
- Financial institutions would be able to take advantage of the new business opportunities.
- However, there are still significant barriers to capturing this promise.



UNEP FI

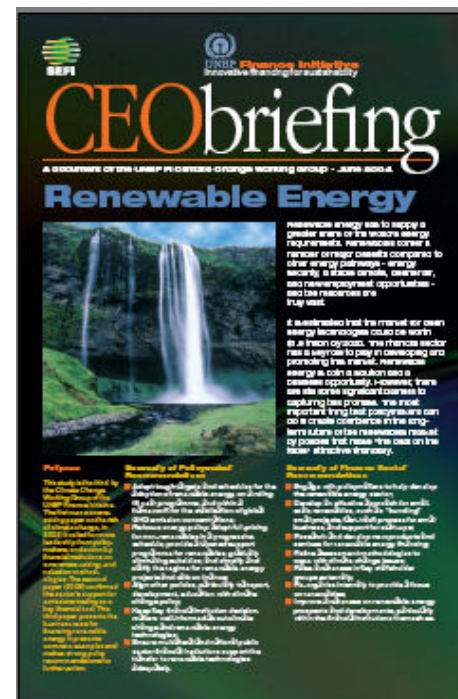
- The United Nations Environment Programme Finance Initiative
- A unique global partnership between the UNEP and the financial sector
- About 180 member financial institutions worldwide
- Mission is “to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations”

UNEP FI (continued)


UNEP FI CEO briefing on Renewable Energy

Available online at

<http://www.unepfi.org/publications>



A summary of key findings and messages ...



Renewable energy from a financier's perspective

- Motivation for investment is the expected profit—a financier identifies all the individual risks and then carries out due diligence to find an acceptable risk-reward profile.
- Because of the novelty of renewable energy, risks are emphasized and a conservative view tends to be taken on revenue assessment.



What are the risks?

- The renewable energy industry is affected by risks in technology, market, reputation and regulation.
- The higher these risks, the higher the credit risk for the financier.
- Risk mitigation is essential to ensure access to affordable financing.



Three real-life cases from CEO Briefing

- Solar Energy Systems in Australia
- HVB's renewables experience in Europe
- ANZ and US windpower



Case 1: Solar Energy Systems (SES)

- SES has solar photovoltaic technology to convert solar energy to electricity used to pump and purify water.
- The Australian government helps start-up companies such as SES through a system of grants and rebates for renewable energy technologies.
- SES markets its products under the Shell brand name.

Solar Energy Systems (continued)

Lessons

- Institutions, even SRI funds, are not interested in small companies with heavy start-up costs prior to them returning profits.
- The up-front costs of solar deter end-users, despite the superior lifecycle economics.
- For end-user products, distribution is a critical aspect.
- It takes time to achieve profitability.



Case 2: HVB's renewables experience

- HVB, a major European bank, won the Renewable Energy Deal of the Year Award in 2002 for the 201 megawatt wind farm portfolio financing in Spain.
- The sector is subsidized, but the renewable energy tariff is set as a percentage of the annual average end-user price of electricity.
- Structuring the finance of renewable energy projects can be difficult due to “the funding gap”.

HVB's renewables experience (continued)

Lessons

- Banks need greater regulatory certainty to make long-term financial commitments
- Facilities for financing “the funding gap” would speed up the process.
- Less mature technologies need a combination of government assistance and strong industrial partners' support with a strategic interest to “kick-start” the markets.

Case 3: ANZ and US windpower

- ANZ, one of Australia's leading financial services group, was a lead arranger in financing the Colorado Green project in 2003.
- In arranging the financing, a key issue was ensuring the project qualified for the federal production tax credit (PTC).
- The plant was commissioned by end-2003 led by the leading sponsors, PPM Energy and Shell WindEnergy.
- Subsequently, the construction of new wind farms in the US has ceased as the industry waits to see whether the PTCs will be extended beyond end-2003.

ANZ and US windpower (continued)

Lessons

- A stable regulatory regime is essential.
- Projects with experienced stakeholders can be delivered efficiently.



Recommendations for financial institutions

- Engage with policy makers to help develop the renewable energy sector
- Develop an effective approach for small-scale renewables, such as “bundling” small projects, fast-track process for small business, and support for start-ups



Recommendations for financial institutions (continued)

- Raise awareness in key stakeholder groups externally
- Improve awareness on renewable energy prospects and developments, particularly within the financial institutions themselves
- Collaborate with the public sector, for instance, export credit agencies and development banks, to develop new markets in developing countries

JBIC and sustainability

JBIC is an official financial institution providing policy-based financing to implement the Japanese Government's external economic policy.

International Financial Operations

Export Loans

Import Loans

Overseas Investment Loans

Untied Loans

Guarantees

Equity participation

Overseas Economic Cooperation Operations

ODA Loans

JBIC and sustainability (continued)

JBIC is a UNEP FI signatory,

**and serves as Chair
of the UNEP FI Asia Pacific Task Force
Outreach Group since April 2005.**



JBIC and sustainability (continued)

JBIC's activities are guided by six priorities:

- Contributing to the stability of the international financial order
- Supporting economic and social development in developing countries
- Securing Japan's stable access to natural resources
- Supporting capital- and technology-intensive exports from Japan
- Supporting the development and expansion of Japanese industries' international operations
- **Supporting developing countries in addressing global issues**

JBIC and sustainability (continued)

Financing renewable energy projects

- Export loan for geothermal power plant in Mexico, June 2000
- Guarantee for private placement bonds to finance geothermal projects in the Philippines, June 2000
- ODA loan to Egyptian wind power generation project in Zafarana, December 2003



JBIC and sustainability (continued)

On top of supporting renewable energy projects,

- Participating in investment fund for ESCO, May 2004
- Contributing funds to Japan GHG Reduction Fund (JGRF) and establishing Japan Carbon Finance, Ltd. (JCF), December 2004
- Untied loan to support a coal gasification project in Anhui Province, China, February 2005
- Untied loan to support methane gas recovery project in Shanxi Province, China, March 2005



UNEP FI Asia Pacific Task Force

The Asia Pacific Task Force was launched in January 2005 with its activities focusing on:

- Setting of “sustainability” priorities for the Asia Pacific financial sector
- Creating a critical mass of Asia Pacific signatories that are able to exchange ideas and best practice facilitated by a UNEP FI network
- Integrating a triple bottom line approach to the operations of the Asia Pacific financial sector

UNEP FI Asia Pacific Task Force Outreach Group Activities

The Outreach Group

under the umbrella of the Asia Pacific Task Force

- The aim is to lead and coordinate various cross-boundary outreach activities in the Asia Pacific region
- Members: 8 signatories
- Associate members: 6 UNEP FI partners
- Chair: JBIC
- Co-chair: Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)

Innovative financing for sustainability

**“Renewable energy is both a solution
and a business opportunity.”
(UNEP FI CEO briefing, June 2004)**

Thanks.

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Information on JBIC available online at

<http://www.jbic.go.jp/english>