



“We will need many sustained steps to power the global economy while averting the threat of harmful climate change. With soaring investment in renewable energy and energy efficiency, it’s clear those steps are being taken.”

Achim Steiner, Executive Director, UNEP

SEFI IN 2007

The last twelve months have been a watershed period for both SEFI and the climate for change. A series of reports by the International Panel on Climate Change and the Stern report on the economic implications of failing to address climate change have focused the attention of communities and governments around the world in ways that were not imagined just a few years ago.

SEFI is pleased and proud to have played a part in this burgeoning awareness, including the release of an important report, **Global Trends in Sustainable Energy Investment 2007**. Without doubt, Global Trends shows that the renewable energy and energy efficiency industries are becoming mainstream investment sectors – setting a new record of more than \$100 billion worth of transactions in 2006 (see Fig 1). In 2007, the upward trend continues, with capital investments occurring in sectors and regions previously considered too risky and too illiquid to merit the attention of institutional investors.

climate policies at the federal, state and municipal levels. The challenge now for governments, energy planners and policy makers is to build off of this positive market dynamic, turning near-term advances into long-term frameworks and continued sector growth.

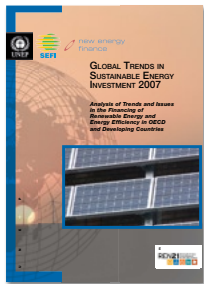
It is also clear that **the sustainable energy sector will far surpass** predictions of conventional energy analysts if current market signals remain and are strengthened through policies to lower carbon emissions. Financiers will not be the only ones to profit – communities will take their returns in cleaner air and water, and new cleantech jobs.

Even so, there are **still significant challenges** ahead. Investment is unevenly distributed, not all markets are efficient, and many regions and technologies are still struggling to get noticed. Though many parts of the developing world have significant sustainable energy resources available, they lack the investment and technology to convert these resources into the energy that can power their development. In all countries opportunities to improve energy efficiency are being missed, and new investment approaches are needed to upgrade and reengineer how and where we use energy.

This is where SEFI is poised to assist. Through a number of innovative initiatives presented in this summary **SEFI continues to help financiers and communities** find opportunities and profits by using their energy efficiently and generating it increasingly from renewable energy sources.

From Mexico to the mountains of China, SEFI is helping to promote and sustain the investments in clean energy needed for the “tipping point” where sustainable energy is the fundamental component of the global energy system. Indeed, as Global Trends in Sustainable Energy Investment suggests, that point may already be here.

Eric Usher and Virginia Sonntag-O’Brien Coordinators, UNEP SEFI



Global Trends in Sustainable Energy Investment 2007

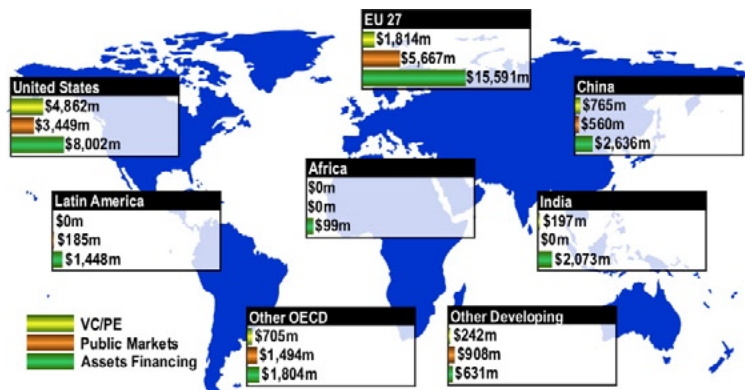


Fig 1: Global Sustainable Energy Investment by Type and Region, 2006

As the UNEP Executive Director put it: “These are not just interesting numbers – they are a **powerful signal** for an alternative future to today’s fossil-fuel dominated energy markets. Signals move markets and the signal these investment numbers make is that markets for clean energy are becoming more liquid, more globalised and more mainstream.”

Far more than just tweaking the existing energy system, these new investments herald **full-scale industrial development** where the sector’s growth is underpinned by a widening array of clean energy and

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FINANCIAL RISK MANAGEMENT INSTRUMENTS FOR RE PROJECTS

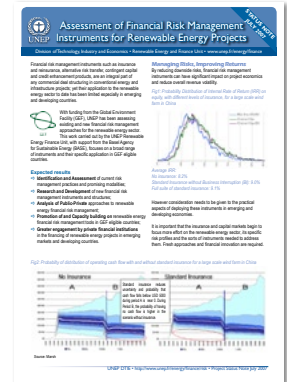
Financial risk management instruments are an integral part of any commercial deal in conventional energy and infrastructure projects, but their application to the renewable energy sector to date has been limited, especially in non-OECD markets.

With funding from the Global Environment Facility (GEF), UNEP has been assessing existing and new financial risk management approaches for the renewable energy sector. This work focuses on

a broad range of instruments and their specific application in countries eligible for GEF funding.

A **Request for Proposals was announced in August** to support a number of feasibility studies and developments in the risk management field.

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PDF-Download: <http://sefi.unep.org>

SEFI JOINS CHATHAM HOUSE FINANCE AND POLICY PROJECT

SEFI has provided initial seed funding for the Renewable Energy Finance-Policy Project at Chatham House, home of the UK Royal Institute of International Affairs and a world-leading institute for the debate and analysis of international issues.

The project aims to facilitate the inclusion of **financier and investor perspectives in the development of renewable energy policy**. The Project acknowledges the importance of government policy to mobilize private sector

investment in the renewable energy sector and ultimately to increase the flow of project deals.

The Chatham House project also reflects SEFI's interest in the link between investment and policy, and builds on collaborative work initiated in 2004 in the lead-up to the Bonn international conference, renewables2004. At that conference, financiers characterized three elements of 'good policy' as 'loud, long and legal', identifying the importance of

stable policies across the project finance horizons and incentives that improve the attractiveness of investments.

Chatham House will hold a conference in London on this topic entitled **Scaling up Renewables: Finance, Policy and Market Growth**, from 19-20 November 2007.

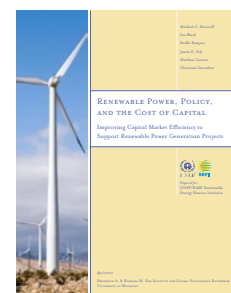
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RENEWABLE POWER, POLICY, AND THE COST OF CAPITAL Improving Capital Market Efficiency to Support Renewable Power Generation Projects

This report is based on a series of stakeholder interviews and related secondary research aimed at **understanding how U.S. renewable energy policy environments influence the cost and overall availability of private financing for renewable energy power projects**. By distilling the perspectives of capital providers and others familiar with the project financing process, they deliver new insights to policy makers on lowering the cost of capital needed to finance new renewable power projects.

Although existing renewable energy policies have been effective in driving new development in the US, the research findings indicate that several problems with policy design and consistency contribute to the higher cost of renewable energy versus conventional power projects. A series of specific policy solutions favored by interviewees are discussed in detail in the report. Overall, the findings emphasize the opportunity for good policies to create a more stable, transparent, and predictable market

for renewable energy, which in turn will lower financing costs and improve the flow of capital to the sector.



Download the report:
<http://sefi.unep.org>

NEW INTERNATIONAL ALLIANCE

SEFI is launching an **International Public Finance Alliance** to improve the sharing of public finance knowledge and development in the clean energy sector.

The alliance will facilitate collaboration, intensive exchange, and the pooling of resources amongst agencies that are funding public or public/private financial mechanisms in the sustainable energy sector. Administered by BASE with the support of the Oak Foundation, and in collaboration with the US Clean

Energy Group, the Alliance will offer an informed collegial network of peers to explore problems and solutions candidly; develop and provide practical information and tools; and pool resources to achieve cost effectiveness and financial leverage.

The types of instruments to be examined through the alliance include clean technology incubators and accelerators, contingent grants, public/private venture capital models, soft and convertible

loans, loan guarantees and revenue support mechanisms.

A core group of institutions will meet in Paris in early October to discuss and finalize the structure of the alliance and its initial work programme.

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TRAINING FOR BANKS

Developing knowledge and skills within financial institutions can help loan officers understand and assess the opportunities and risks associated with financing sustainable energy. In Mexico, SEFI partner BASE is **working with the Mexican National Energy Savings Commission, CONAE, to promote sustainable energy financing** through a targeted market assessment of the business and investment opportunities for small-scale renewable energy and energy efficiency projects. The project, funded by the Renewable Energy and Energy Efficiency Partnership (REEEP), includes the creation of a local multi-sector group to support long-term initiatives that stimulate development of the sustainable energy market.

The MEDREP **Training Support Facility** (TSF) facilitates mainstream investment evaluations by financial institutions for energy efficiency projects. Targeting the North African countries of Egypt, Tunisia and Morocco, the TSF assesses the awareness of the local financials for energy efficiency investments, finance barriers, and the current market situation and potential on the demand side. Dedicated training seminars in each of the targeted countries are being used to help engage the banking community in this new sector.

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NEW FINANCIAL INNOVATIONS FACILITY

A Financial Innovations Facility (FIF) is being developed as part of the Global Environment Facility's new Public Private Partnership Initiative to help bring innovative financial products onto the market. The FIF will share development costs associated with the preparation of new

financial products that target the sustainable energy sector in the developing world. The GEF will **help share the development risk of innovating new financial products** through contingent grants that will be repaid for products that are successfully launched.

RENEWABLE ENERGY FINANCE FORUM INDIA November 29-30, Delhi



SEFI is again working with Euro-money Energy Events to support the Renewable Energy Finance Forum India, from November 29-30 in Delhi. The India event is an opportunity for leaders in industry, the finance community, and government to discuss the current investment climate for renewable energy in South Asia and needs for the sector to meet increasing demands for energy in the region.

As with previous events, the Delhi meeting will again include a **BASE Investment Forum**, enabling local developers to promote their projects.

For more information visit:

www.reff-india.com

SEED CAPITAL FACILITY READY FOR LAUNCH

To support seed finance investors in Asia and Africa, UNEP will launch a Seed Capital Assistance Facility later this year in partnership with the Asian Development Bank and the African Development Bank. Supported by the Global Environment Facility and the UN Foundation, the US\$9 million Facility will help private equity fund managers invest seed capital in early-stage project developments.

By sharing transaction costs and buying up investment returns, the Facility essentially helps close the gap between what local sustainable energy entrepre-

neurs are able to offer today in terms of returns on investment, and the requirements of the investment community. By building experience in this area, investors can gain confidence in early-stage seed capital investing as a viable and cost effective strategy for building long-term commercial clean energy portfolios.

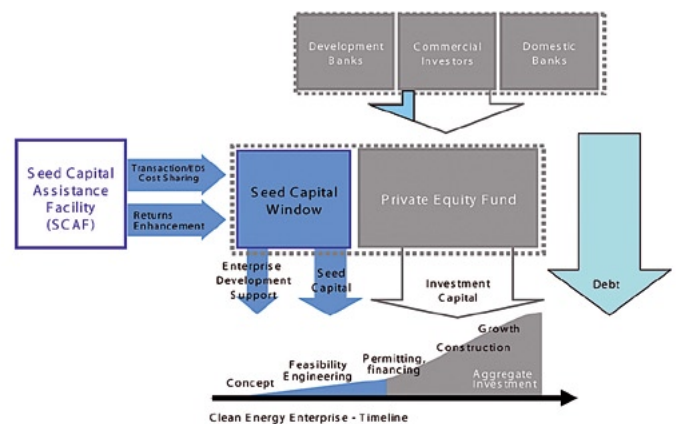


Fig 2: Seed Capital Assistance Facility

TUNISIAN BANKS ENGAGE TO FINANCE SOLAR WATER HEATERS

As part of the Italian-sponsored Mediterranean Renewable Energy Programme, UNEP has been working with the Tunisian government to engage banks in the solar water heating sector. In 2005, the PROSOL loan programme was launched to help local banks provide low-cost financing for domestic solar water heaters. UNEP initially provided an interest subsidy that was matched by participating banks to bring the effective interest rate initially down to 0 %, with Amen Bank and UBCI the leading lenders. After 12 months, UNEP's subsidy was phased out.

An important element of the Pro-

gramme was the participation of the state utility, STEG, which recovered the monthly loan payments via their customers' utility bills. PROSOL began operating in April 2005 and during that year, 7,200 solar water heating systems were installed, the equivalent of 22,616 m² – 60% higher than the previous best year in 2001 on an annualized basis. The market responded well and credit financing seems to be playing an important role. In 2007, the PROSOL II programme will launch specifically targeting the hotel sector.

Based on the rapid uptake of the solar water heating and the increased

level of bank participation, the government passed legislation in late 2005 that made the sector eligible for the energy subsidy previously provided only for liquefied petroleum gas (LPG). The government is now considering a much larger programme, targeting 250,000 m² of installations by 2009 and requiring a total investment of about US\$125 million.

Similar bank lending programmes for solar home systems and solar water heating systems also exist in India and Morocco, and new partnerships for different technologies are in development for Indonesia, Algeria, India, Albania, Mexico and Chile.

NEW CDM INITIATIVE TARGETS FORESTRY AND BIOFUELS

The new French-funded programme, CASCADE, has been launched in cooperation with the World Bank's BioCarbon Fund to support the development of African CDM projects in the forestry

and bioenergy sectors. These areas have enormous potential for jointly reducing carbon emissions and improving the lives of the poor and their local environment. Presently however, significant barriers are

still impeding these projects; encouraging examples and successful pilot transactions are needed to create a more favorable "carbon investment climate" and pave the way for commercial investors.



**SUSTAINABLE
ENERGY
FINANCE
INITIATIVE**



UNEP Finance Initiative
Innovative financing for sustainability



BASE
Basel Agency for Sustainable Energy



SEFI is managed by the UNEP Renewable Energy and Finance Unit, the UNEP Finance Initiative, and UNEP Collaborating Centre BASE. Support for SEFI is provided by the UN Foundation.

Information on SEFI activities, meetings and reports is available at: <http://sefi.unep.org>