



The Global Energy Efficiency and Renewable Energy Fund (GEEREF): Key elements of the European Commission initiative

The problem to be addressed

Despite encouraging prospects and robust technology track records, energy efficiency and 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 risk capital, in particular in developing countries. An estimated \$9 billion of risk capital is needed for renewable energy generation in developing countries by 2010. Energy efficiency and renewable energy investments generate a multitude of social, economic and environmental benefits, both locally and globally. European Community support is therefore merited to help solve the lack of investment. The Global Energy Efficiency and Renewable Energy Fund (GEEREF) is an innovative financing instrument proposed by the European Commission to maximise the leverage of public funds.

Structure

The GEEREF will be set up as a global public-private partnership. It will offer new risk-sharing and co-funding options for various commercial and non-commercial investors. The GEEREF will actively engage in the creation and funding of regional sub-funds or the scaling-up of similar existing initiatives. In this way, GEEREF will be tailored to the specificities of regional energy efficiency and renewable energy markets. It will bring in local expertise and mobilise additional private sector funding, thus also helping CDM projects to take off in Africa and elsewhere. The Fund will engage professional fund managers. High-quality monitoring, reporting and oversight will be provided through the structure.

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 other EU neighbouring countries**. Priority will be given to investments in countries with energy efficiency and renewable energy policies that are conducive to private sector engagement.

Technology Scope

The Fund will provide equity finance to 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 could comprise a large part of investment prospects, with on-shore wind also offering significant potential. Solar energy could provide stable solutions for remote areas. Co-firing solutions (e.g. burning coal together with biomass), energy service companies and other small and medium-scale clean energy solutions will also qualify.

Beneficiaries

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 International Finance Institutions. In addition to utility-based projects, investments will include manufacturing and assembly businesses, consumer, SME, and micro-finance intermediaries.

Type of financial support

The GEEREF will provide risk capital in areas where previously none was available. The major part of the GEEREF will be used to provide "**affordable**" risk capital to different types of investment projects. In addition, the fund will include a **technical assistance** facility (around 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 in turn will reduce transaction costs and improve the fund's overall performance.

Fund size and 'leverage' potential

The initial funding target for the GEEREF is set at **€100 million**. This will allow for global coverage. Depending on the share of private sector involvement, GEEREF's '**leverage factor**' – the amount of additional capital it can mobilise - **is expected to be as high as 10**. This is considerably higher than for conventional development aid schemes that ask for co-funding at most in the range of 50–70%. On the basis of initial funding of €100 million, **additional risk capital of up to €1 billion could be mobilised under ideal conditions**.

Benefits

Based on mobilisation of **€1 billion of risk capital**, GEEREF will offer a concrete boost to the development and transfer of environmentally sound technologies and know-how – issues at the centre of the COP-12 discussions. Investments could add almost 1 Gigawatt of environmentally sound energy capacity to third country markets, serving 1-3 million people with sustainable energy services and saving 1-2 million tonnes of CO2 emissions per year. These investments would have the co-benefits of reducing indoor and outdoor air pollution and creating local enterprises, jobs and income.

Funding Sources

The European Commission will contribute €80 million over 4 years, starting with €15 million in 2007. 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

The GEEREF could be **launched by mid-2007**, with the first sub-funds established by the end of 2007.

Background

This European Commission proposal draws on the **Patient Capital Initiative (PCI)** launched 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 design 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 in June 2003. Interim results were presented and discussed inter alia at the **International Renewable Energy Conference** (Bonn, June 2004). EIB, KfW, UNDP and IFC provided professional advice on the design of this new Fund. At present, the fund management team is led by the Dutch Triodos Fund Management b.v. The proposed GEEREF is also in line with the policy objectives of the Commission's **Energy Green Paper** (March 2006) and the innovations called for in the World Bank's new Investment Framework.

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