

Brussels, 6 October 2006

Commission proposes €100 million global risk capital fund for developing countries to boost energy efficiency and renewables

The European Commission today proposed creating a global risk capital fund to mobilise private investment in energy efficiency and renewable energy projects in developing countries and economies in transition. The Global Energy Efficiency and Renewable Energy Fund (GEEREF) will accelerate the transfer, development and deployment of environmentally sound technologies and thereby help to bring secure energy supplies to people in poorer regions of the world. These projects will also combat climate change and air pollution. The Commission intends to kick-start the fund with a contribution of up to €80 million over the next four years, and expects that financing from other public and private sources will take funding to at least €100 million. This means that it will contribute to the financing of investment projects of a value up to 1 billion euro.

Environment Commissioner Stavros Dimas said: "This is an innovative mechanism. It underlines the Commission's commitment to help developing countries invest in renewable energy and energy efficiency. It will contribute to bringing clean, secure and affordable energy supplies to the 1.6 billion people around the world who have no access to electricity." Development Commissioner Louis Michel emphasized that "the lack of access to energy is a major obstacle for regions that already experience problems in accessing to capitals. This Fund can mobilize private investments and become a real source of development, especially in Africa".

Need for action

One of the the EU's goals is to ensure that the global temperature rises no more than 2°C above pre-industrial levels, since beyond this level the impacts of climate change are forecast to be far more severe. Business-as usual energy scenarios for the coming decades predict high growth in both energy use and greenhouse gas emissions. 'Accelerated technology' scenarios demonstrate that it is possible to reduce global electricity demand by one third simply by improving overall energy efficiency. In addition, the growth of oil demand could be halved by raising the share of renewable energy for global electricity generation from today's 13 per cent to 34 per cent in 2050. This will decrease the impacts on the environment and will in particular bring future carbon dioxide (CO₂) emission levels back down to current levels the International Energy Agency says.

While the main responsibility for triggering these changes lies with industrialised countries, scaling up energy efficiency and renewable energy initiatives will greatly benefit developing countries by providing clean and secure energy supplies to people who currently have no access to reliable energy sources.

Overcoming investment barriers

Despite improving prospects, energy efficiency and renewable energy projects face significant difficulties in raising commercial funding. The problems are complex but mainly concern a lack of risk capital, which provides important collateral for lenders. The need for risk capital in developing countries and transition economies is estimated at over €9 billion, far above current levels. Mobilising private sector finance is therefore essential.

How GEEREF will work

GEEREF aims to help overcome these barriers by providing new risk-sharing and co-financing options to mobilise international and domestic commercial investments. It will invest in a broad mix of energy efficiency and renewable energy technologies. Priority will be given to deploying environmentally sound technologies with a proven technical track record.

GEEREF will stimulate the creation of regional sub-funds tailored to regional needs and conditions, rather than investing in projects directly. Sub-funds are envisaged for the African, Caribbean and Pacific (ACP) region, North Africa, non-EU Eastern Europe, Latin America and Asia. The focus will be on investments below €10 million as these are mostly ignored by commercial investors and international finance institutions. Corporate finance will be offered to support small and medium-sized enterprises as well as project finance

The Commission intends to put €80 million into GEEREF in 2007-2010, with a first contribution of €15 million next year to kick-start the initiative. Total initial funding from public and commercial sources of €100 million is anticipated, and this is expected to mobilise additional risk capital of at least €300 million and possibly up to €1 billion in the longer term.

Investment amounts at the top end of this range could bring 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. It would also bring substantial benefits in terms of improved indoor and outdoor air quality and creation of local enterprises, jobs and income.

Next steps

The Commission has appointed Triodos International Fund Management b.v. in conjunction with E+Co, to facilitate the implementation of the GEEREF in close co-operation with the European Investment Bank, the European Bank for Reconstruction and Development, and other interested parties.

The Council, European Parliament and other stakeholders are invited to comment on the GEEREF initiative¹ and to endorse the Commission's aim of reaching the initial funding target by mid-2007.

¹ Mobilising public and private finance towards global access to climate-friendly, affordable and secure energy services: The Global Energy Efficiency and Renewable Energy Fund. COM(2006)583