



This is one of a series of Fact Sheets produced by the Energy and Environment Technologies Information Centres (EETIC), an Implementing Agreement of the International Energy Agency. EETIC aims to broaden and improve the collection, analysis and dissemination of information on energy and environmental technologies. The Fact Sheets give details about the programmes managed by EETIC (CADET and GREENTIE), links between EETIC and other international programmes (e.g. SANet), and summaries of some of the information available through EETIC to help develop, assess and finance clean-energy investments.

EETIC FACT SHEET No 6

Financing Clean Energy Investments

This Fact Sheet gives a brief introduction of the types of financing options and the sources of funding that might be available for your project. More details can be found on the GREENTIE Web site (www.greentie.org/finance).

Financing Options

At the early stage of a project's development, the sponsor and developer should consider how they are going to finance the investment. The choice of finance option depends on whether the funds are available at the time and in the amount required, the magnitude of the project and the risks involved, the number of interested parties involved and the availability of any market incentives. There is a variety of options available, including:

- **Purchase from internal budget** is the simplest type of funding. If funds are available internally, the investment will be compared and prioritised against other requests from within the organisation.
- **Debt Finance** is usually a conventional, commercial bank loan. Borrowers pay the interest and repay the loan. The lender does not have a share in the project and, therefore, has no 'upside' potential – i.e. no matter how well the project does, a lender will never receive more than the interest and principal repayments. Lenders focus closely on risk.
- **Equity Finance** represents the investment by the owners of the project. An equity stake can range from as little as 30% for low-risk investments to over 50% for riskier investments. Equity investment receives profit from the project when it does well, but if the project under-performs or becomes bankrupt, investors are the last to be paid.
- **Grants** are non-returnable sources of funding provided by bodies with an interest in seeing a project developed.

Successful Financing

Key points to remember when seeking finance include:

- consider taking professional advice from financial and legal advisors as well as technical experts;
- ensure you have clear and comprehensive information on project feasibility, risks and risk mitigation strategies (see Fact Sheet 5 *Assessing the Feasibility of Clean energy Investments* for further guidance) to provide to potential financiers;

- select carefully the lending institutions you approach to ensure they offer the kind of financing you seek and research their requirements thoroughly.

Sources of Financing

There is a wide range of finance sources, including:

- **Commercial Banks.** If you have an ongoing relationship with a commercial bank and the investment you are proposing is part of your normal operations, they should usually be the first organisation approached. They will be familiar with you and quite probably with the type of investment you have in mind.
- **Project Financing Organisations.** If, for some reason, your bank is not suitable, you may want to consider organisations that specifically provide financing for renewable energy and energy efficiency projects.
- The **UNEP Division of Technology, Industry and Economics** Web site (www.uneptie.org/energy/act/fin/index.htm) lists a range of energy finance programmes and includes the *Financing Sustainable Energy Directory*, an inventory of lenders and investors that provide finance to the renewable energy and energy efficiency sectors.

This site contains links to **Multilateral Development Banks** such as the **Asian Development Bank** which is engaged in promoting the economic and social development of countries in the Asian and Pacific region, making loans against energy efficiency and renewables-based projects and the **African Rural Energy Enterprise Development (AREED)** site, which provides early-stage funding and enterprise development services to entrepreneurs.

Basel Agency for Sustainable Energy is a UNEP Collaborating Centre that promotes and facilitates investment in renewable energy and energy efficiency (www.energy-base.org). It includes the Financing Sustainable Energy Directory, which is an inventory of lenders and investors that provide finance to the renewable energy and energy efficiency sectors.

The UK New and Renewable Energy Programme has published a guide for developers *Financing renewable energy projects*. It is available as a PDF and can be downloaded from www.dti.gov.uk/energy/renewables/publications/pdfs/financerenewprojects.pdf

Further Information

To see what CADDET and GREENTIE can offer you, please visit the EETIC Web site at www.eetic.org

EETIC's members during 2004/05 are: Canada, Denmark, Korea, Norway, Sweden and the European Commission.

If your country is not yet a member of EETIC you can contact the EETIC Centre at:

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