

PROTOTYPE – FACT SHEET

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WG: PROMOTING SUSTAINABLE BANKING REGULATION TO
CATALYZE PRIVATE CLIMATE INVESTMENTS

ORGANIZATION: CAF – DEVELOPMENT BANK OF LATIN
AMERICA

Title:

Green Climate Programme to foster Renewable Energy projects
in Latin America

Mission statement

To design a special financial mechanism to increase the use of
renewable energy sources in Latin America.

Briefly describe your prototype idea

The energy and heat production from renewable energy sources have a huge potential in Latin America, nevertheless most of the countries have not taken advantage of this potential. There are many reasons but the principals are due to lack of regulatory and policy framework, the high risk perception of the technology, lack of reliable data (information), technical knowledge to design the projects and financial incentives (duty free taxes, incentives or grants), among others.

The aim of this special mechanism is to design a programme that can be replicate in many countries of Latin of America to increase the energy and heat production from renewable energy sources. The Programme is going to combine technical and financial instruments and it is going to focus on: 1) provide capacity building to private sector (project developers, financial institutions, technological suppliers, others) and public sector (related government agencies); 2) stablish concessional green climate credit lines and establish a new and innovative financial instrument “Pay for Performance Incentive” (according to each ton of dioxide of Carbon avoided is going to give a subsidy, calculated as USD/ton of CO₂); and 3) support the implementation of concrete pilot projects thought, for example, the development of the feasibilities studies. With these activities, it is expected to contribute to remove the barriers that hinder or prevent the deployment of Renewable Energy projects in Latin America.

Furthermore, with the establishment of the financial mechanism is expected to capture national and international funding for activities proposed by the Programme. International financial support could come from funds promoting mitigation activities, e.g. Green Climate Fund or NAMA Facility. Depending on the source of financing and its destination international funds, along with potential financial resources from the National governments will be captured and distributed by a financial institution such as a second or first-tier bank or development banks.

In the following figure is represented each component of the financial mechanism.

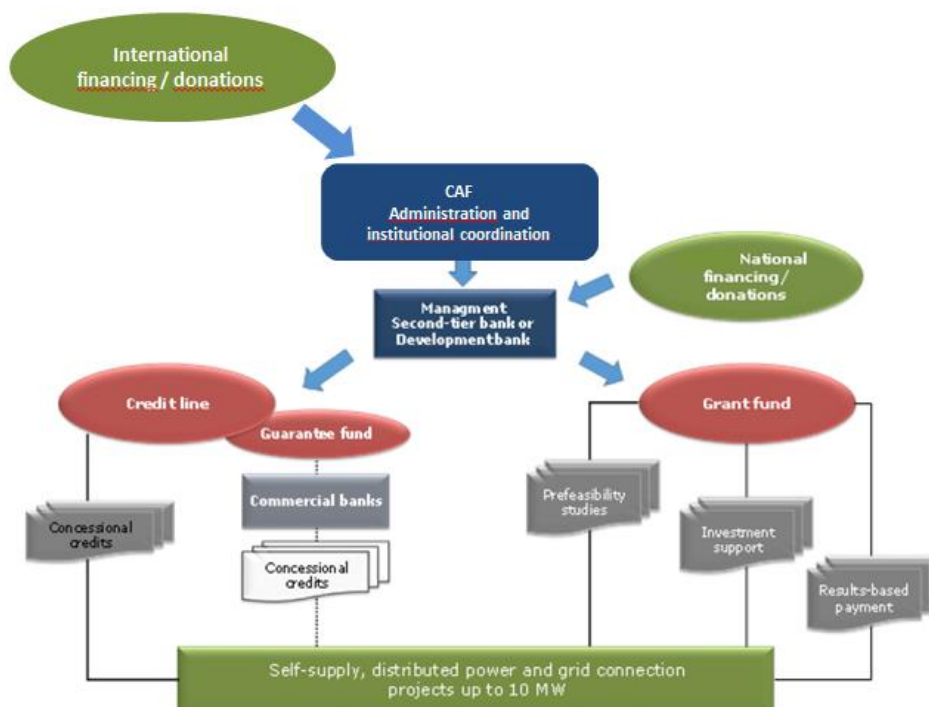


Figure 1: Structure of the financial mechanism for renewable energy projects
Source: Own elaboration

1. **The grant fund** aims to provide co-financing for feasibility studies and to create a support to finance projects that can demonstrate a high impact. In addition, a results-based payment scheme is proposed to provide additional incentives for the efficient and successful project implementation.
2. **Credit line.** One of the main barriers to the implementation of RE projects is the high cost of capital. In general, this is the result of high commercial interest rates and short loan terms offered by banks. During the implementation of the Programme, a concessional credit line will be established to finance individual projects.

It is intended that the fund operates in USD with a concessional rate of interest and at least a terms of 10 years in order to improve the profitability of projects and their access to funding. This is especially relevant for projects in the SME sector. The loan will cover a maximum of 70% of the total investment. The fund will be administered by a second-tier bank or a national development bank.

3. Guarantee fund. The third component of the financial mechanism is a Guarantee fund that will be implemented aiming to mitigate the risk for commercial banks. Partial credit guarantees will be offered to national and local financial institutions, to cover part of the risk of loan default of project developers. The objective of this instrument is to create an incentive for financial institutions to establish new credit lines for RE projects and/or to expand existing credit lines with favorable terms for project developers. The level of coverage of guarantees will vary depending on the type of financial institution and its target group.

Finally, the Programme will combine the financial mechanism with a technical assistance component in order to remove the barriers to difficult the implementation of this kind of projects. The technical assistance component is going to include 1) Capacity building and training; and 2) Technical assistance service for project developers including information on finance options and available incentives, Information on technologies and available technical support for pre-feasibility studies, and information about the RE potential available in different regions, among others.

Target group

- Governmental agencies
- Project designers
- Projects developers
- National Banks

Potential partner(s) for implementation:

- Ministry of Treasury
- Ministry of Energy
- Ministry of Environment
- Second or first tier banks
- Green Climate Fund
- Renewable Energy local associations and/or trade chambers

Key challenges and opportunities

The key challenges and opportunities identified are:

Challenges

1. Lack of interest of the public sector.
2. Lack of financial support from Green Climate Fund.

Opportunities

1. To establish a financial framework to attract to the private and public sector to implement renewable energy projects.
2. To demonstrate around the world the regional implementation of the programme and the possibility to adapt and replicate in other sectors and technologies.

Next steps

Activity	2016								
	April	May	June	July	August	September	October	November	December
To select the pilot country in Latin America									
To adapt the program according to country's priorities.									
To complete the Green Climate Fund's funding proposal.									
To submit the Funding Proposal to the Green Climate Fund.									

In case of receive the financial support from the Green Climate Fund, the programme is going to start to be implemented during the first quarter of 2017.

Disclaimer

Please take note that this Programme was designed for PDCI's purposes and it does not represent the obligation of CAF to implement it. It will require a deeply analysis to know its financial feasibility. It is for illustrative purposes.