

Renewable Energy Platform for Institutional Investors



Renewable energy investments offer long horizons, predictable cash-flows, diversification, and excess yields. These attributes can align well with the needs of many institutional investors, a group that collectively manages over USD 70 trillion in assets. However, despite this apparent match, renewable energy investment vehicles are not structured in a way that can attract institutional investment.

REPIN could unlock capital for 259 GW of new renewable energy projects.

The concept of the Renewable Energy Platform for Institutional Investors (REPIN), proposed by the European Investment Bank, aims to engage institutional investors in the financing of renewable energy projects to free-up balance sheets of project developers and project finance banks, reduce overall costs, and thereby encourage new investment in the sector.

By improving access to long-term capital and shortening the holding periods for commercial banks, REPIN would foster the financing of new projects directly by freeing capital from refinancing transactions and channeling this into new projects, and indirectly by providing liquidity to the market, increasing the willingness of project finance lenders to finance new projects at a lower cost.

REPIN's market potential for re-financing is an estimated USD 292 billion, which could free up capital for 259 GW of new projects. These projects would theoretically reduce emissions by 508MT CO₂ overall and 36MT on a yearly basis.

INSTRUMENT DESIGN

REPIN is a flexible instrument that could encompass a variety of financial structures, tailored to the renewable energy financing market and to investors' preference and specific country needs. It could range from simple project debt pass through to a full securitization structure. When required, a REPIN mechanism could also include further forms of credit enhancement such as subordinated loans and guarantees. In general, REPIN aims to facilitate transactions between institutional investors and project lenders to increase the scale of available financing for renewable energy and reduce its costs.

The Lab helped to assess a case study in South Africa. In South Africa, while commercial banks are willing to recycle their lending capacity towards new renewable energy projects, the credit quality and size of their loans are not sufficient to mobilize the bulk of the institutional investor market. In this context, a REPIN mechanism could provide investors with securities of higher credit quality and larger size by supporting the aggregation of small loans into a larger pool and potentially providing further credit enhancement if the pool's credit rating is yet inadequate.

As the cost of structuring such transactions and providing credit enhancement can discourage private banks from providing such support, public institutions could fill the gap and initiate the market.

The concept's main point of strength is the scale of private resources that could be mobilized in emerging economies. In the case of South Africa, a REPIN mechanism could mobilize USD 1.25 billion in the next five years, if successfully implemented, and increase commercial banks' current renewable energy financing by more than 20%. However, the concept remains a very ambitious and complex proposal that would need a strong institutional support to overcome the many implementation challenges it would face.

ABOUT THE LAB

The Global Innovation Lab for Climate Finance is an initiative that supports the identification and piloting of cutting edge climate finance instruments. It aims to drive billions of dollars of private investment into climate change mitigation and adaptation in developing countries. Analytical and secretariat work of The Lab has been funded by the UK Department of Energy & Climate Change (DECC), the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), and the U.S. Department of State. Climate Policy Initiative serves as The Lab Secretariat.

The information included in this overview is based on the high-level preliminary analysis conducted in Phase 2 of The Lab assessment, and updates provided by the instrument proponent and implementer.

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