Financing Green Growth

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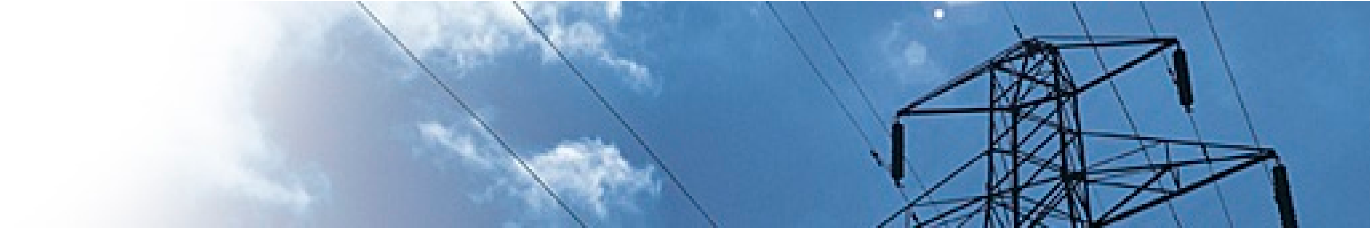

Is "Green Growth" different from traditional "Brown Growth" ?

Empirically the answer is affirmative as green growth investments are not forthcoming at a desirable pace.

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Barriers to green growth

- Higher upfront costs and the use of subsidies for "brown" technologies
- Political and regulatory barriers. Policies, generally, still do not favor green solutions
- Environmental and social barriers, e.g. planning objections for renewable energy
- The (perceived) intermittent nature of green technologies
- The scale of projects, mainly higher transaction costs
- International accounting standards (externalities are not priced in)

→ Significant policy and regulatory reform is needed

From Strategy to Projects

In order for investments to emerge there is a need for:

- Priority setting   Political support (regulatory framework, legislative action, concessions, permitting, tariff setting etc)
- Resource allocation (by public as well as private stakeholders)
- Clear project ownership and active participation by owners (public and/or private sector)

Harmonization across the BS Region would be important, creating a level playing field and a larger marketplace

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Funding of green growth

There is no panacea !

The full scale of financial resources has to be mobilized and increasingly directed towards green investments

Private sector financing is the key but public resources should play an essential pioneering, catalytic and complementary role

The financing chain

- Public R&D support
- Business angels
- Venture capital investors
- Equity investors
- Mezzanine debt
- Policy banks (IFIs, DFIs)
- Bank loans, capital markets
- Insurance
- Special instruments

  (e.g. carbon financing)

← Public sector investment support, public funds, soft loans

Bankable projects

Loans

A loan = Distributing the capital cost over time

Borrowed money is expensive (cost of funds + risk premium)

Debt service must be covered with the borrower's own resources

Operating revenues and/or budgetary funds

Access to borrowing depends on:

Creditworthiness

and/or

Project quality (profitability = capacity to generate money for debt service)

Bankable projects
-What is needed ?

In order to lend banks need:

- Willing and able borrowers
  - Willing = Prepared to take loans at prevailing interest rates to finance part of their investments
  - Able = Creditworthy enough to be able to service the loan/s and with the other part of the financing secured – banks never (should) provide loans for a 100 % of the project cost

Bankable projects
-What is needed ?

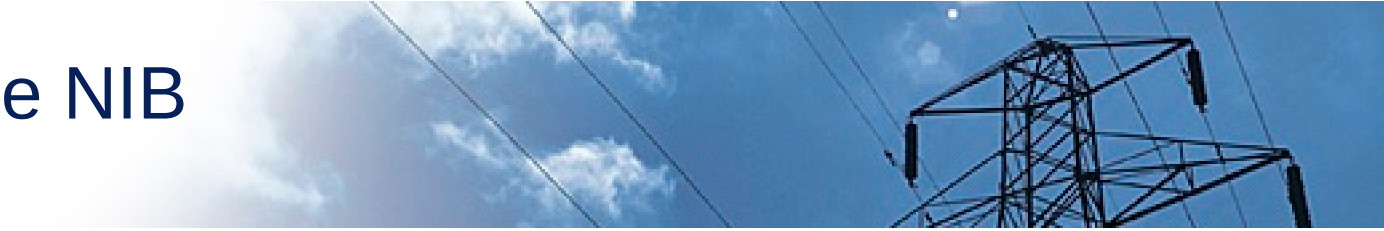
In order to lend banks need:

- Good quality (feasible) projects
  - Financiers are focused on all aspects of project feasibility

    Economic
    Financial
    Technical
    Institutional
    Environmental
  - Project preparation is essential - adequate studies are required!

    Technical assistance can help:

    - NIB/NEFCO BSAP Fund for marine environment projects
    - EIB initiative to set up an EUSBSR Implementation Facilty
    - JASPERS, JEREMIE, JESSICA, EPEC



Case NIB

- NIB's mandate is to promote sustainable growth of its member countries by providing long-term complementary financing in support of projects that:
  - ❑ Strengthen competitiveness, and/or
  - ❑ Enhance the environment
- The main part of NIB's lending is targeted on the member countries of the bank (Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden) as well as on the neighbouring region (Poland, Russia and Belarus), with annual disbursements in support of investments in the region on the level of EUR 2 billion.
- Projects are selected on the basis of the mandate contribution, foremost found in the sectors : Environment, Energy, Transport - Logistics - Communications, Innovation
- NIB finances:
  - ❑Large investments of the corporate and public sector
  - ❑Small and medium-sized enterprises and projects through financial intermediaries
- NIB puts particular emphasis on projects which require long-term funding