Financing Renewable Energy – Benefits and Risks for Lenders and Investors

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Content

• Background
• Benefits for Lenders in Financing Renewable Energy
• Risks for Lenders in Financing Renewable Energy
• Outlook
Background

- The relation between the financial sector and the environment is indirect.
- The responsibility of banks for financing business with environmental impacts is discussed intensively.
Benefits for Lenders in Financing Renewable Energy

• Being involved in a growing sector
• Good risk management conditions if guaranteed feed-in tariffs exist
• Potential to communicate the reduction of CO\textsubscript{2} emissions by financing renewable energy
  – Investing $100,000 in renewable energy bonds for one year avoids 7.5 tons of CO\textsubscript{2} emissions
• Good reputation

RBC’s annual report 2009, p. 46
Risks for Lenders in Financing Renewable Energy

• New sector with new kinds of risks
  – Political risks

• New types of securitization
  – Feed-in contracts instead of sites and real-estate as collateral

• Sector knowledge
  – Little knowledge about the sector available in financing institutions

- Ability to repay?
- Collateral value?
- Reputation risk?
Outlook

• Potential for financing institutions to reduce the carbon risk of their portfolio
• Further potential in the case of carbon pricing
• Stronger stakeholder interests
• Cooperation needed between renewable energy sector and financial institutions to guarantee successful financing