

**Introduction to the EU non-paper on the subject of:  
Export credits for sustainable development projects  
- Renewable Energies and Water -**

**1. Introduction**

The World, at this moment, is confronted with important challenges in fulfilling increasing needs in energy and in clean water while protecting the environment. Financing is a crucial factor in this context. Export Credit Agencies can play an important role by rising up to the challenge.

**2. The energy issue**

- Demand for world energy is projected to rise by two thirds over the period 2001 to 2030.
- Total investment in energy infrastructure during the period is projected to be US \$ 16 trillion of which, US 10 trillion will be needed for the global electricity sector.
- Current dependence on fossil fuels poses risks for energy security. In many developing countries this dependence also represents a large drain on budgets.
- Climate change poses a major risk to the environment, human lives and the global economy.
- Many countries will be severely affected by a changing climate through intensified desertification, droughts and flooding.

Renewable energy can mitigate impacts of climate change, address regional and local environmental and health concerns, contribute to poverty reduction, and improve energy security by reducing reliance on fossil and nuclear fuels.

Representatives of both NGOs and renewable energy companies have approached ECAs advocating a policy change. They should like ECAs to consider offering terms for renewables that may be more favourable, subject to case by case consideration, than those for conventional power projects -12 years - and at least as good as those available for Nuclear Power Plants (under the Sector Understanding on Export Credit for Nuclear power Plant -15 years irrespective of country classification - which complements the Arrangement). They argue that such, more flexible, terms under the Arrangement would be commensurate with both the increased payback over longer periods of such projects and the need to promote environmentally-friendly technology and sustainable energy.

At the Johannesburg World Summit on Sustainable Development in 2002 Ministers recognised the need to increase the use of renewable energy resources by, inter alia, disseminating alternative energy technologies<sup>1</sup>. At the Bonn International Conference for Renewable Energies in June 2004, Ministers reaffirmed their commitment to substantially increase with a sense of urgency the global share of renewable energy in the total energy supply, and viewed advanced policies by Export Credit Agencies as crucial to expanding finance for renewable energies. Policy Recommendations include the promotion of renewables through Export Credit Agencies<sup>2</sup>.

### 3. The “water” issue.

- In 2000, 1.1 billion people lacked access to safe water supply and 2.4 billion to proper sanitation, principally in developing countries and emerging countries.
- According to the Camdessus report, current spending on new water infrastructure in these countries is about \$ 80 billion a year. This will have to more than double over the next 20-25 years to around \$ 180 billion.
- Lack of infrastructure for clean water supply and wastewater treatment poses huge human and environmental problems and hampers economic development.

In Johannesburg, Ministers reiterated their commitment to halve by 2015 the proportion of people who have no access to safe drinking water as outlined in the Millennium Development Goals and the proportion of people without access to basic sanitation. To this end, mobilizing international and domestic financial resources at all levels; transferring technology and supporting capacity-building for water and sanitation infrastructure and services development were recognised as priority actions.

In addition, the Camdessus report urged Export Credit Agencies to set targets for their water sector business, to lengthen the maturities for water loans and to increase the proportion available for local costs. They should also consider offering guarantees and loans in local currency.

1        Respectively paragraphs 24 a) and 19 c) of the Plan of Implementation.

2        Policy Recommendations for Renewable Energies, Section III, contain the following recommendations for governments: “Promote renewables through Export Credit Agencies (ECA): the public promotion of exports through the provision of credits or guarantees by ECAs can help mobilise private financing for renewables. ECAs should become more active in building industry awareness about renewable energy investment opportunities. Specifically, it is essential to establish standardised and simplified procedures for small-scale projects so as to reduce transaction costs. It is also essential to encourage long-term contract durations for renewables (e.g. at least 15 years) and more flexible modalities (e.g. flexibility in repayment terms; liberal treatment of local costs- for example a higher share than currently allowed under the OECD Arrangement) to adjust to the variety of renewable energy projects.”

**4. The Financing issue.**

One of the main problems in relation to official support for exports of renewable energy and water equipments is that the terms allowed by the Arrangement today, are generally not sufficient to close the cost gap in terms of commercial and economic viability. For renewable energy and water projects, the useful economic life, that exceeds by far the maximum repayment terms of the Arrangement, and the cash flow generated by these projects seem to make more flexibility possible in the repayment profile than current practice under the Arrangement allows for. However, such enhanced flexibility should always ensure that the maximum credit term remains well within the useful economic life of the goods delivered. Another element of importance concerns the actual restriction of official support for local costs to the amount of the down payment. For the sound development of the necessary activities in relation to renewable energy and water related projects, this restriction is felt as a real barrier.

**5. Proposed action.**

With a view to honour the above-mentioned commitments, it is proposed to introduce more flexibility in the official support modalities in relation to renewable energy and water-related projects, thus – for renewable energy – improving the level playing field with conventional energy. The annexed EC paper aims at stimulating the discussion necessary to further this aim.

Renewable energy is mentioned as a possible issue under Track II in document TD/PG(2003)14/Rev 1. Hence, this paper should also be seen in the context of Track II discussions. In view of the above-mentioned commitments on water, it is considered that water-related projects should also be included in the present initiative.

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Experience has learned that projects in relation to renewable energy and water are confronted with considerable difficulties to get started. These problems concern financing, general acceptance and market penetration. In order to enhance the economic and financial viability of renewable energy and water related projects special elements of flexibility are mentioned for consideration in the following proposal. It is understood that this proposal does not alter the commitments on the environmental review of projects resulting from the Recommendation on Common Approaches on Environment and Officially Supported Export Credits.

**I. Scope of Application**

The following Renewable Energy projects and Water-related projects would be eligible for special terms and conditions provided that their impacts are addressed in accordance with the Common Approaches and any significant adverse environmental and social impacts are appropriately mitigated in accordance with the relevant international standards, criteria and guidelines.

**Renewable Energy and Water projects:**

- a) Hydro power
- b) Wind energy
- c) Geothermal energy
- d) Tidal and tidal stream power
- e) Wave power
- f) Solar photovoltaic power
- g) Solar thermal energy
- h) Bio-energy:  
consisting of all sustainable biomass, landfill gas, sewage treatment plant gas and biogas energy installations. 'Biomass' shall mean the biodegradable fraction of products, waste and residues from agriculture (including vegetal and animal substances), forestry and related industries, as well as the biodegradable fraction of industrial and municipal waste.
- i) Conversion plants for energy crops into biofuels.

j) Projects related to the supply of water for human use and wastewater treatment facilities:

- Infrastructure for the supply of drinking water to households, i.e. water purification for the purpose of obtaining drinking water and distribution network (including leakage control).
- Wastewater treatment facilities, i.e. treatment of households and industrial sewage sludge, including processes for the re-use or recycling of water and the re-use, recycling or recovery of sewage sludge, including as fuel. In the case of use of sludge as fertilizer or soil improver in agriculture, human health and the environment should be protected in accordance with international guidelines<sup>3</sup>.

## II. Flexibility in credit terms

In order to close or narrow the cost gap for these types of projects, it would be relevant to consider the introduction of flexibility in repayment terms.

Participants may wish to extend the maximum **repayment term** for these types of projects to 15 years. This is critical to reduce the tariff of the heat or electricity produced and to make renewable energies more competitive vis-à-vis conventional energy sources<sup>4</sup>. The same applies to water projects, where tariffs are a major issue in relation to improving access to water and sanitation for the poor. Longer repayment periods also allow time alignment with long-term concession and power purchase agreements, as well as economic life of projects (up to 25-30 years for some hydro projects and water concessions). Of course, prolonging the repayment term to 15 years will necessitate an appropriate surcharge on the CIRRR. Here reference can be made to the SCIRRR applied in the sector understanding on export credits for nuclear power plant.

Participants may further wish to create a special flexibility in relation to **local costs** by raising the cover/financing ceiling for local costs in the projects under consideration above the downpayment of 15% (current maximum) to 30% of the export contract value. The part exceeding the downpayment will be restricted to guarantee or insurance (pure cover) only. A more liberal treatment of local costs is justified from a sustainable development point of view. Renewable energy projects have a very large local content: local subsidiaries may have to be established to develop the project, low-technological equipments and

3 L. Schwartzbrod, Effect of human viruses on public health associated with the use of wastewater and sewage sludge in agriculture and aquaculture, WHO, Geneva, 1995; A. C. Chang, A. L. Page, T. Asano, Developing human health-related chemical guidelines for reclaimed wastewater and sewage sludge applications in agriculture, WHO, Geneva, 1995.

4 According to industry sources, increasing the repayment period can reduce the price of electricity by 10 to 20%.

maintenance personal are sourced locally. Creating local economic activity and jobs is often essential to secure the social acceptability of renewable energy projects. In addition, the existing local cost standard could force such companies to adopt inefficient solutions by exporting equipment rather than mobilising local sub-suppliers or using an available local subsidiary. These considerations are all the more relevant in the water sector where the sustainability of investments (e.g. operation and maintenance) is key.

As far as **premium rates** and **minimum interest rates** are concerned, it is suggested not to depart from current Arrangement rules, taking account of the fact that CIRR issues are one of the issues of Track II discussions.

### **III. The Arrangement.**

With participants embarking on a Track II update/rewrite of the Arrangement one option would be to introduce the concept of official support for exports of “Renewable Energy and Water-related projects” within the Arrangement that would contain all elements of a sector approach. The best way to do this would be to define renewable energy and water-related projects in a separate Annex to the Arrangement in which a clear-cut definition of the eligible projects is given. Separately, Article 12 should be extended with an extra provision (12 c) specifically containing the special flexibilities for renewable energies and water-related projects including prior notification in accordance with the procedure in Article 44 (this article would have to be modified to include the renewable energy/water maximum credit terms). In order to avoid any problems caused by unclear definitions, it is of utmost importance to clearly limit and ring-fence the scope of application of such an approach, as suggested above.