



Facilitating Financing for Renewables

Activity:	Financiamiento de Empresas de Energía Renovable (FENERCA)
Location:	El Salvador, Guatemala, Honduras, Nicaragua, and Panama
Problem:	Policy barriers and lack of awareness of the benefits of developing and investing in renewable energy projects
Solution:	Assist with policy reform, provide enterprise development services, business planning assistance, and facilitate financing to encourage renewable energy investments
Duration:	April 2000 – July 2005
Implementers:	E+Co in partnership with Biomass Users Network – Central America (BUN-CA)

Objective

Promote the financial viability of renewable energy enterprises and projects by increasing the capacity of financial institutions, entrepreneurs, and NGOs to support the renewable energy sector in Central America.

Background

USAID provided \$5.31 million in support of the FENERCA program which focused on the promotion of renewable energy enterprises and policies in Guatemala, El Salvador, Honduras, Nicaragua, and Panama. The program was implemented by E+Co in partnership with the Biomass Users Network – Central America (BUN-CA) and the Environmental Enterprises Assistance Fund (EEAF).

The program was targeted to stimulate a policy, investment and entrepreneurial climate conducive to the development and investment in renewable energy. To overcome constraints to bringing in the private sector, particularly to the rural energy markets, a partnership between the public and private sector was necessary. The approach recognized the shortage of public capital for renewable energy, which then stimulated increased interest in changing policies to attract private investment capital, creating a positive momentum for change and an enhanced opportunity for results.

Although the constraints to renewable energy supply of the host countries varied, experience has evidenced similar barriers in its advancement. These barriers included, but were not limited to: government policies that failed to address environmental externalities or provide incentives for fossil fuels; legal and policy frameworks that discouraged private investment or produced uncertainties that added to the normal risks of investment; energy entrepreneurs or project developers that did not have the capacity to assemble a “bankable” business plan or project pro forma; lack of available early stage and patient capital to advance implementation of energy enterprises; and decision-makers in the public or private sectors, including financial institutions, that were not aware of the economic and technical benefits of renewable energy.

FENERCA increased the sustainable production, use and finance of renewable energy in USAID assisted countries. The program activities focused on supporting financial institutions, governments and enterprises in the adaptation of the models, tools and approaches needed to ready renewable energy enterprises for finance and the stimulation of such finance.



Activities

The provision of enterprise development services, with a specific deliverable of a “bankable” business plan, was one of the fundamental components of FENERCA. This work built on the E+Co model of energy enterprise development. At the core of the work was the goal to attract financing for renewable energy entrepreneurs so that they in turn could deliver renewable energy services to households, businesses, communities and the grid. This assistance and support included: market validation, market planning, business planning, detailed financial analysis, preparation of business plans and investment options, development of management capacity and systems and financial structuring; where appropriate, E+Co made seed capital investments from its own resources into these enterprises. FENERCA also strengthened the internal capacity of targeted local and regional financial institutions to evaluate the technical, financial and business dimensions of renewable energy projects. This included identification of interested financial institutions and group training sessions. It is important to note that FENERCA also assessed policy barriers in an effort to initiate policy changes that encouraged the development of and investment in renewable energy enterprises.

FENERCA had four main areas of emphasis:

1. Strengthening the capacity of entrepreneurs and financiers, organizing next stage finance and opening new markets for the replication of the FENERCA program and its activities
2. Policy and productive use applications related to renewable energy projects or enterprises
3. Management and monitoring of the program and enterprises supported; outreach to local USAID Missions where the program is being implemented and the implementation of best practices and document sharing among regional FENERCA teams;
4. Improvement of technical manuals and resources and expanded dissemination of energy related resources.

The FENERCA program identified numerous opportunities and built strong networks with local enterprises, financial institutions, and regulatory bodies throughout Central America. Some of the activities include:

112 renewable energy enterprises were supported with Enterprise Development Services (EDS) in the targeted countries.

A US \$15 million dollar fund for investment in clean energy was created in Central America. It is known as the Central American Renewable Energy and Cleaner Production Facility (see text box on CAREC).

More than 1,850 people were trained on renewable energy, including entrepreneurs, government officials, financial institutions and NGO representatives.

12 different manuals and documents on renewable energy were developed and distributed to over 3800 entrepreneurs and stakeholders in the ten targeted countries (including an Energy Entrepreneurs Toolkit, an Off-Grid Manual, a Carbon Manual, a Monitoring and Evaluation Manual, and a Financing Hydroelectric Projects Manual).



Assistance was provided to the Energy Commission of the Honduran Congress in drafting legislation on “Incentives for renewable energy projects”.

18 power purchase agreements (PPAs) were approved by the national electric utility of Honduras, 6 of these enterprises secured financial support through FENERCA’s assistance.

The first international green certificate transaction involving assets in a developing country was completed in partnership with EcoSecurities. The transaction involved Hidroeléctrica Papeles Elaborados (HPE), a hydroelectric project in Guatemala, and Nuon, the largest electricity distributor in the Netherlands. Nuon committed to purchase 100% of HPE’s 8.2 MW carbon emissions for the next ten years. This is one of the largest green certificate transactions to date.

Central American Renewable Energy and Cleaner Production Facility (CAREC)

To more broadly support renewable energy investment in Central America, FENERCA created a \$20 million fund, the Clean Energy Investment Facility for Central America (CAREC), by leveraging funding from Finn Fund, Triodos, and Shorebank. CAREC is also backed by a \$5 million loan guarantee fund supported by USAID. The facility began operations in all seven countries of Central America in 2006. The “facility” is a special purpose fund and “mezzanine” financing enables entrepreneurs who would not generally qualify for normal bank loans to access credit. The bridge loan makes up for a borrower not having sufficient collateral or equity (capital) to secure the loan. CAREC will customize its financing products to offer the specific type of support that project developers need in order to secure bank loans. In this way, CAREC will help bring local banks into the clean energy lending business and hopefully lead to sustained lending once CAREC has exited the sector.

Results

108,953 people now have access to new and clean energy services, through solar home systems, solar water heaters, water pumps, hydro electricity and biomass electricity.

Over US \$37 million of funds were mobilized to support renewable energy initiatives, including direct investment in 23 renewable energy enterprises.

20 MW of clean hydroelectric and biomass energy are being delivered to the local grid in Honduras (Snow Mountain, La Esperanza Phase 1A and B and Tres Valles) and in Guatemala (Papeles).

1,700 Solar Home Systems (SHS) in rural communities installed in Nicaragua (by Tecnosol) and El Salvador (by Technosolar).

Over 13,000 solar home systems being installed in Guatemala and Nicaragua by Dintersa, Tecnosol and MONA enterprises, which will serve over 65,750 people.

USAID support has been central to the advancement of the energy enterprise centered model in Central America, allowing the completion of “bankable” renewable energy business plans, leveraging approximately \$1.1 million of operating support from a UNDP-GEF program (FOCER) and from two United Nations Foundation Programs (AREED, BREED). The concentrated focus of the USAID funded tasks on engaging local financial institutions produced direct investment of more than \$37 million of private capital.



In Honduras, FENERCA provided technical assistance and loans during the early stages of the La Esperanza Hydroelectric Plant project, which facilitated \$8.9 million in subsequent financing through project developer Consorcio Inversiones, S.A. (CISA). La Esperanza has three powerhouses located along the Intibuca River, and La Esperanza sells electricity to the Honduran State-Owned utility ENEE through a long-term Power Purchase Agreement, supplying much needed power to ENEE during peak hours when the country craves

additional electricity, now mainly supplied by imported fossil fuels. The La Esperanza project demonstrates how renewable energy can foster development in harmony with social and environmental concerns. CISA was instrumental in the planting of more than 18 hectares of new forests, and the project provides employment to 40 local people, and indirectly supports more than 120 jobs. It is estimated that 45,000 tons of greenhouse gases will be displaced annually by avoiding the use of fossil fuels to produce this electricity.

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