

berneunion 
Capacity Sharing
Marketplace



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BR2 Climate Technology

Karin Wessman (EKN)
Valentino Gallo (Javalyn Partners)

BR2 Financing Climate Tech

Financing innovative and sustainable technology is essential to advancing climate goals, but brings with it challenges which are unique and, in many cases, specific to the sector in question. This breakout group will look at how different sources of finance can play a complementary role in delivering various types of clean technology finance solutions (e.g. projects in renewables).

- In financing different climate tech, what role do different sources of finance play? E.g. innovation vs. development vs. export etc.
- Examples of support for a project that involved the adoption of an early technology by the project sponsors?
- Allocation of ‘technology risk’
- lessons learned to create a transaction-review model to be utilized for other deals

Group Composition

Type of Institution		Region	
ECA	7	Europe	9
Ex-Im	5	North America	3
DFI	1	Asia	2
Bern Union	1	Latin America	1
Other	2	Middle East	1
	16		16

Summary of Topic

Challenges of financing new technology

- Untested technology has inherent risks (failure, unexpected costs, underperformance, or shorter life-span relative to expectations)
- There are also indirect risks arising from the application of technology in a new way (technique), or in a new situation (country/region) which can exacerbate the normal risks associated with any financial transaction, including reputation risk
- From a risk perspective, 'new' could even just mean that some or all of the parties in the transaction do not have significant prior experience (whether that is the financier, guarantor, project sponsor, EPC contractor, or off-taker)
- How we look at these risks depends on other factors, including the financing structure and the other counterparties
 - e.g. a project finance structure where the project cashflow depends solely on technology performance is more vulnerable than a buyer credit and an investment-grade obligor, or a company with which the lender / insurer has a strong existing relationship will be viewed as less risky
- It is therefore important both to understand the technology risk itself, but also account for the relative capability of the various counterparties to a transaction to assess and mitigate this

Suggestions / Best Practices

Some approaches to tackling technology risk

- Working with partners – e.g. involve banks (international/local), or other co-financiers with prior experience in the sector
- The two-level due diligence conducted by e.g. bank and ECA for the same transaction can help
- Working with strong counterparties and obligors with whom you have existing relationships can help
- At a national level, there may be specific institutions or agencies who are specialised to assess and finance technology risk (e.g. example of DOE in the US, looking at this for energy transactions)
- Alternatively, in some countries considerable expertise has been developed by ECAs who have a huge amount of experience in particular sectors e.g. Nordic examples: EKF/EKN/GIEK
- There are also emerging some specialised private technology risk mitigators (tech risk insurance) – however, while this may transfer the risk it will also increase costs which are ultimately passed on to the project sponsor and may therefore not prove catalytic in delivering climate tech. Equally, ensuring that the risk is actually transferred requires a minimum internal capability to understand the parameters which need to be guaranteed by any technology insurance, and this could also present some problems
- If we take a holistic view on risk holistically, it can be argued that (climate) technology risk is balanced out by a mitigating contribution towards the broader category of climate risks – e.g. by investing in this tech, the project is less exposed to other common, and increasingly prominent climate risks

Next Steps

- This topic overlaps with lots of other areas, but it is a clear example of an area where there is lots that can be learned by sharing different experiences, since different institutions are developing their own experience, knowledge and specialisms
- There is certainly scope to continue this discussion and knowledge sharing among Berne Union, and CSM participants going forward, with e.g., a new working group