



Energy Co2 : Renewable Energy

Bioenergy Booms: Financing Renewable Energy Projects

Green power providers in Germany announced plans to invest 200 billion euros in the sector through the year 2020. Klaus Schmuck, head of Dresdner Bank's Center of Competence for Renewable Energies, explains how banks can help finance this booming sector.



Klaus Schmuck

Head of Dresdner Bank's Center of Competence for Renewable Energies

Everybody is talking about renewable energy. Have you also noticed this as well?

Definitely. This sector is one of the most interesting growth markets. From July 2005 to June of this year alone there have been more than 130 applications for loans from the renewable energy sector with a total value of almost 1.8 billion euros.

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From which areas of the sector do most of the applications come from?

Representing 57 percent of all applications, the areas of biogas and biomass are the clear front-runners, followed by photovoltaic with 22 percent and wind with 14 percent. And with land-based wind energy generation reaching the limits of its potential, bio-energy has still not reached its prime.

If I am applying for credit in the bio-energy sector, what kind of criteria do you look for as a creditor?

Along with the common requirements like good credit standing and promising economic prospects for the project in question, the most important criteria are the technical feasibility and reliability of the planned facilities, as well as their location.

Detailed evaluation of these criteria is extremely important for banks, because the losses can quickly reach into the millions (of euros) if a project fails.

Why is the selection of the right location so important?

Let's take the example of bio-energy, where a whole series of factors converge. A biogas facility should be centrally located so that all the necessary substrates, such as grain and manure, are cultivated and produced in the immediate vicinity. In order to cut down on unnecessary transport and logistic costs, the ideal geographic radius is around 20 kilometers or less.

Furthermore, we ascertain whether more biogas facilities will operate in the area, raising the possibility of local supply shortages of bio-material. Here, long-term delivery contracts are necessary.

Finally, having potential consumers nearby is also very important - the closer one is to consumers, the lower the service costs.



Picture Gallery (click the image to start)

Energy from Wind, Water, Sun, and Earth

What are the decisive factors that determine a successful finance model?

Clearly, the credit period should be shorter than the life of the facility. For example, if we presume a guaranteed reimbursement of 20 years, the maximum finance period should not exceed 12 years. That way, the income during the last 8 years can flow directly to the investor.

In addition, the annual revenue produced by the utility must be sufficient to cover all costs and create savings for uninsured damages.

A key word here is insurance. How closely do you work together with your parent company Allianz in project development?

At the moment we are working closely with the Allianz Center for Technology (AZT). Before credit decisions are made, we look for advice from their experts - particularly regarding innovative projects - in order to find out whether the proposed concept is technically possible, and whether the calculation of operation and investment costs is plausible.

We are also continuing to intensify our cooperation with our insurance colleagues, so that we can also offer insurance services along with our loans.

How much progress has been made with building a business model that integrates finance and insurance for renewable energy projects?

We are in the process of growing, because the integration of banking and insurance expertise takes some time. But we have already seen the

first projects and successes.

At the moment we are looking closely at plans for a biomass heat and power plant in the middle of Germany. If that plan is realized, the AZT would deliver the technical expertise, Allianz would insure it, and Dresdner Bank would finance it.

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