CASE STUDY 38: MEXICO – WIND DEVELOPMENT PROGRAM (LA MATA LA VENTOSA)

Barriers	Senior lenders' high risk perception; developer's early entrant high cost
Instrument	Subordinated Debt
Application	Financing of Wind Power Plant
Amount	US$189 million

PROJECT BACKGROUND AND OBJECTIVES

Mexico is one of the most promising yet untapped areas for wind energy development in Latin America, with wind energy potential conservatively estimated at more than 40 GW. However, until 2008, its development had been slow by global wind industry standards. This was due both to lack of adequate financial incentives for private developers and investors, as well as various issues with the existing regulatory framework and policies relating to wind energy. The region of the Isthmus of Tehuantepec in the State of Oaxaca represents a world-class wind resource. Despite the fact that Oaxaca has more than 8,000 MW of wind potential, Mexico only had 85 MW of installed and operational wind projects at the end of 2008.

Within this context, funds from the Clean Technology Fund (CTF) were deployed to (i) catalyze the development of initial private wind projects in order to establish a track record of performance for future investors and developers and (ii) provide critical information to the government as they implemented a new regulatory framework. CTF funds have been used to support two wind projects, "La Mata La Ventosa" and "Eurus".

La Mata La Ventosa is a 67.5MW wind farm in the state of Oaxaca that is expected to produce about 290 GWh of electricity annually and to sell power to four Walmart local retail stores under Mexico's "auto supply framework". Senior lenders to the project included IFC, IDB and Export-Import Bank of the United States and the project was developed by EDF Energies Nouvelles. A CTF investment of US$15 million was structured to enable a financing package agreeable to all stakeholders to be completed for the project and to offset some of the high developer costs associated with being an early entrant into the sector.

INSTRUMENTS USED

Financing from the CTF was structured in the form of a subordinated loan with concessional pricing.

NSTITUTIONAL ARRANGEMENTS

By providing a key component of the debt package which enables the company to achieve an appropriate financing package for the project, CTF is sending a positive signal to other developers that if they begin the process of developing wind farms in Mexico, the probability is high that they would be able to secure suitable financing and earn an appropriate return on their investment. A successful financing plan should also serve as a demonstration to other financiers that wind projects in Mexico can sustain more debt and risk than currently believed, thereby encouraging larger debt flows to future wind projects.

OUTCOMES

Expected outcomes from the project are:

(i) Supporting the Government of Mexico in its pledge to reduce its greenhouse gas emissions by 30% by 2020 and transition to a low carbon economy. The project is expected to generate approximately 290 GWh per annum of clean, non-fossil fuel dependent electricity generation;

(ii) Contributing to economic and community development in the Ejidos of La Mata and La Ventosa, one of the poorest areas in the State of Oaxaca and Mexico;

(iii) Demonstration effect and market signal to global wind power developers that the Mexican wind power market is viable and ready for scale-up.

Further reading

IFC, EDF La Ventosa: Summary of Proposed Investment – click here

IFC, EURUS: Summary of Proposed Investment – click here

Climate Investment Funds, IFC Project Proposal for Mexico: Private Sector Wind Development, 2009 – click here