The Lab
The Global Innovation Lab for Climate Finance

Second Lab Advisor Meeting

20 October 2014

Island of San Giorgio Maggiore, Venice

Secretariat Summary

Key points:

(1) At the Second Lab Advisor Meeting in Venice on 20 October 2014, Advisors in consultation with their Principals, selected four from seven instruments to move forward to Phase 3 of The Lab's work to identify, stress test, and refine new instruments designed to unlock billions in developing countries. These were:
- Climate Development & Finance Facility;
- Energy Savings Insurance;
- Long-term Currency Swap; and
- Agricultural Supply Chain Adaptation Facility.

(2) Advisors agreed that going forward, The Lab's success would increasingly be defined by its ability to deliver the promise of moving from talk to action. Delivering effective pilots of Lab-tested instruments, and encouraging the replication of successful pilots at greater scale and in different sectoral, technological, and geographical contexts is key. There was recognition that securing real financial commitments, from donors and private sector, was critical to achieving this end.

(3) In Phase 3, backed by strong commitments from proponents and the identified implementation partners, further in-depth analysis on the selected instruments as well as enhanced consultation with actors in the respective (sub-)sectors and/or countries where pilot implementation of the instruments is planned, to refine specific design elements, identify options for addressing risk and cost barriers, governance and other challenges, and propose possible pathways for implementation.

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1. On 20 October, Climate Policy Initiative (CPI), acting as Secretariat for The Lab, in partnership with Bloomberg New Energy Finance (BNEF), hosted the Second Lab Advisor Meeting on behalf of the Global Innovation Lab for Climate Finance (The Lab).

2. The objectives for the Second Lab Advisor Meeting were: (1) to present and discuss the preliminary analytical results of seven instruments (selected by Principals in June 2014, to undergo in-depth analysis to assess their actionability, innovativeness, catalytic and transformative potential); and (2) for Lab Advisors, in consultation with their Principals, to select the most promising three to four instruments for further detailed analysis and development in Phase 3.

Opening Remarks and Framing of the Session

3. The meeting was co-chaired by Dr. Barbara Buchner, CPI, and Itamar Orlandi, BNEF; and bought together Lab Advisors and high-level climate finance experts from governments, pension funds, investment banks, project developers, and development finance institutions, from across the world. Dr. Buchner welcomed a new member (the Moroccan Agency for

Solar Energy), and noted The Lab continued to attract strong interest, most notably at the Climate Finance Ministerial in New York on 21 September 2014. Maya Freedman, Ricardo Nogueira and Hermann Amecke (representatives from The Lab's Project Management Group, from the UK, U.S. and German governments respectively) stressed that the measure for success for The Lab would be through the facilitation of effective pilots of Lab-tested instruments, including their replication at greater scale and in different sectoral, technological, and geographical contexts. Moreover, it was considered crucial that the instruments developed by The Lab should offer an added value in terms of efficiency and effectiveness over standard interventions of development cooperation. Janis Hoberg from BNEF noted that lessons learnt from Finance for Resilience (FiRe), launched in October 2013, suggested that implementation was critical and whether or not instruments could be implemented as pilots should be the focus for The Lab in selecting instruments to move to Phase 3 of analysis. Dr. Buchner concluded by emphasizing that the process of bringing together working groups and refining all seven instruments had seen a positive impact for those instruments.

Instrument Reviews and Roundtable Discussions

4. Lab Advisors and meeting participants reviewed each of the seven instruments in turn. Lead analysts provided an overview of each instrument and Lab proponents provided a brief reply to state the benefits of their idea. Roundtable discussions followed the lead analyst and proponent presentations.

   The following table summarizes details of the seven instruments, and the key discussion points.

Instrument Category	Instrument Highlights	Key Discussion Points
Aggregation Platform	**Renewable Energy Platform for Institutional Investors (REPIN)** Proponent: European Investment Bank (EIB) Goal: Simultaneously stimulate renewable energy deal flow and engage institutional investors in the financing of renewable energy projects. Summary: A platform of context-specific financial structures that would facilitate transactions between project lenders and institutional investors by improving investments' credit quality and size of securities in order to match institutional investors' requirements. Target Sector: Renewable energy Geographical Sector: Middle income countries Pilot: South Africa	• EIB clarified that existing demand and strong Government support for renewable energy in South Africa were behind the selection as a possible pilot. • It was recognized that credit enhancement would be crucial to the design of the instrument, and additional consideration for how this would be implemented would be required. • It was reaffirmed that this instrument requires input from The Lab for access to networks and for scale up. • There were open questions about how refinanced debt would be priced to make it commercially attractive, and how freed- up finance would be channelled towards new RE investments.

Primary Deal Flow	**Climate Development & Finance Facility (CDFF)** Proponent: Netherlands Development Finance Company (FMO) Goal: Promote development and finance of climate mitigation projects. Summary: Creation of a new entity, managed by FMO, to provide fast-track finance using three separate facilities for different phases of the project life-cycle; • development facility; • construction facility; and • refinancing platform. Target Sector: Energy; Forestry; Transport Geographical Sector: Low and Lower middle income countries Pilot: 10 projects	• FMO reaffirmed that the refinancing solution for the development of ideas was an important and relevant part of the instrument, noting that there are regions that would require this solution such as Uganda. • FMO stated that it would be possible to build a consortium within 6 months, and have a pilot project ready in 12 months. • There were open questions about how institutional investors can be attracted and how provided equity attracts private capital. • Managing potential conflict of interest within this instrument would be crucial, given that FMO is prepared to make a financial commitment and to also manage the new entity
	Debt Fund for Prepaid Energy Access Proponent: Azuri Technologies Goal: To bring renewable energy to more than five million off-grid homes in five years. Summary: Increase deployment of pre-paid, off-grid, renewable energy systems through access to necessary working capital to energy service companies who have a proven track record in the market, via a combination of asset finance and consumer credit. Target Sector: Off-grid renewable energy Geographical Sector: Low income countries Pilot: Sub-Saharan Africa	• The proponent emphasized that the fund is attractive for investors due to the short pay-back period that it provides energy at a cheaper rate than conventional energy production to customers, and that due to the recent fast development of the market for pay-as-you-go renewable energy solutions, there is significant demand and absorption capacity for the Debt Fund. • Foreign exchange risk remains an issue, and the question of whether passing this risk onto the customers is an appropriate strategy. • Additional detail is required regarding how the fund would need to be structured to attract investors, including rating metrics for customer creditworthiness. • There were open questions about how first-loss can be covered, and who provides the loan guarantees.

	GRIPS (Global Renewable Independent Power Supplier) Proponent: Deutsche Bank Goal: To replace off-grid industrial diesel generators with commercially mature and cost-competitive renewable alternatives, including storage. Summary: The establishment of a new private sector entity that will develop, build, and own a diversified pool of decentralized renewable energy assets. Target Sector: Off-grid renewable energy Geographical Sector: Initially Sub-Saharan Africa Pilot: Nigeria, Kenya and South Africa	• The proponent illustrated how the concept could help replace diesel and be a model that can be scaled up. • The new GRIPS entity would operate like a utility provider, and would initially focus on providing services to business with the potential to target individual customers in the future. • The aim would be to provide an energy mix that matches industrial base load need through renewables, batteries, and some diesel power – thereby replacing traditional diesel plants. • Regulatory issues require continued consideration; especially in countries with centralized energy production • There were open questions about the utility of transitioning the equity-funded approach into a YieldCo, which could be attractive for institutional investment.
Adaptation / Climate Resilience	**Agricultural Supply Chain Adaptation Facility** Proponent: Inter-American Development Bank and Calvert Investments Goal: Catalyze private investments in measures that improve the climate resilience of agricultural value chains. Summary: Value chain finance mechanism structured as a trust fund managed by Multilateral Development Banks. It aims to provide long-term finance and technical assistance to small- to medium-sized producers and/or processors for investments that would increase crop productivity and reduce their climate vulnerability. Target Sector: Agriculture & forestry Geographical Sector: Low & middle-income countries Pilot: Latin America and Caribbean (countries to be determined)	• IDB and Calvert have human resources to dedicate to further develop the design of the Facility. In particular, Calvert Investments is taking on the task of engaging agri-businesses. • IDB has a $5 fund million funds from the GEF that could be used in the Facility • ASCAF requires input from The Lab to attract additional funding and to achieve scale. • There were open questions regarding how ASCAF differs from existing instruments, how it could be combined with insurance mechanisms, and which adaptation measures would be eligible for financing. Moreover, it was noted that in many Latin American countries farmers have access to subsidized credit, but the issue is the lack of technical training services

Risk Mitigation	**Long-term Currency Swap** Proponent: World Resources Institute Goal: Catalyze renewable energy investment in developing countries by mitigating exchange rate risk and supporting the development of commercial currency swap markets. Summary: Creation of a new entity that would issue currency swaps in markets where these instruments do not yet exist, and provide credit risk guarantees, in those markets where the instrument is available but credit risk makes it unaffordable. Target Sector: Renewable energy Geographical Sector: Asia, Middle East and Latin America, Sub-Saharan Africa Pilot: 6 countries	• Foreign exchange risk is an overarching issue in many emerging markets that this instrument aims to address. • The International Finance Corporation and TCX have been identified as implementing agencies. • The proponent expressed the aim that this set of instruments would be a market maker in developing countries for the commercial sector to follow. • There was consideration of whether TCX would find counterparties for swaps in developing countries, whether the instruments would be relevant in countries with a black market for currency, whether the first-loss guarantee would be well invested, and what might happen when the first-loss guarantee is used up. • There was general agreement that both TCX and IFC have a proven track-record.
	Insurance for Energy Savings Proponent: Danish Energy Agency Goal: To provide assurance that energy efficiency projects will generate financial savings. Summary: Proposes a package of financial measures, including a new insurance product that covers the expected financial value of the energy efficiency investments, and the ability to facilitate credit lines from development banks that would provide long term capital and reduce the cost of financing of the projects. Target Sector: Energy Efficiency Geographical Sector: Emerging markets Pilot: Mexico	• The proponent explained that the pilot in Mexico is on track, and that the instrument is part of a package of measures that also include concessional finance, but that the instrument needs support for replication. The feasibility study for the instrument demonstrated that the instrument would need to be part of a broader set of interventions to be successful. • Standardization was acknowledged to be a key advantage of this instrument. • Insurers can provide integrated product, insuring and licensing energy savings. • There was discussion that energy efficiency measures are a sizable opportunity for climate change mitigation, but that they need support, via insurance and refinancing.

Final Discussion and Selection of Instruments for Phase 3

5. Following the review of each instrument, a final roundtable discussion considered the challenges in selecting three to four out of seven diverse instruments, at different stages of analysis and development, to progress to the next phase. Discussion focused on the particular role of The Lab in supporting each instrument. Material considerations included the role of The Lab in: developing concepts through to design; identifying potential donors to fund start-up phases for pilots; facilitating access to development resources and other fundraising sources; establishing take-to-market strategies; supporting efforts to replicate and scale up pilots in different regions (with different implementers and backers); creating in-roads to local institutions, businesses and financial systems; and providing instrument inputs to the Global Climate Fund (GCF).

6. One Lab Advisor per Principal, in consultation with Principals, voted anonymously for their top three instruments to go forward to Phase 3. Voting identified a top three, and resulted in two instruments being tied in fourth place. Advisors elected to take a fourth instrument through to Phase 3 and cast a further vote to resolve the tie by a show of hands. Based on this vote the following four instruments will proceed:
   - Agricultural Supply Chain Adaption Facility
   - Climate Development & Finance Facility;
   - Energy Savings Insurance; and,
   - Long-term Currency Swap;

Next Steps

7. In closing, the Secretariat briefly outlined the process for Phase 3 (starting end-October 2014). In-depth analysis will continue on the selected instruments and focusing on questions left open in the previous analytical phase. This process will be informed by the San Giorgio Group case study approach, including stakeholders' analysis, financial modeling, and risk assessment. The final aim is to suggest improvements on the instrument design, identify remaining risks that have to be addressed, and pathways for implementation.

8. Going forward, The Lab's success will increasingly be defined by its ability to deliver the promise of moving from talk to action. There was recognition that securing real financial commitments from donors, other Lab members and the private sector, was critical to achieving this end. It was also recognized that which the next Phase of analysis, it will be important to get potential recipient countries involved in the instrument development; both to involve their perspective and experience in the effective design of the instruments, and to ensure buy-in to the proposals.

9. The finalized instrument reports and a written report summarizing the analytic findings for the seven instruments will be published on The Lab website at the end of November 2014.

10. The Lab has secured a side event at COP 20 in Lima. The event will take place on December 11th at 6pm at the U.S. Center. Further information will follow.

11. The next Lab Principals Meeting will be held in New York on 16 April 2015. At this meeting Principals will be asked to endorse the top 2-3 instruments and consider recommendations on how, and where, the most promising instruments could be specifically piloted through Lab-backed public-private partnerships.