The Global Innovation Lab for Climate Finance

Update on Instruments

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Webinar Overview

- What is The Lab?
- Objectives and Outcomes
- Timeline
- The Lab Instruments
- Looking Forward

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What is The Lab?

The Global Innovation Lab for Climate Finance supports the identification and piloting of cutting edge climate finance instruments. It aims to drive billions of dollars of private investment into climate change mitigation and adaptation in developing countries.

The Lab Members and Partners

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Objectives and Outcomes

- **Identify, stress test, and refine** the design of innovative financial instruments targeting developing countries
- **Inform** governments, public finance institutions, and private investors in developed and developing countries **about the potential of Lab instruments to unleash private investment**
- **Demonstrate effective public-private collaborations** between senior actors from developed and developing countries that mobilize private finance at scale
- **Success will be** facilitating effective pilots or their replication backed by real investors, at greater scale and in new contexts

Timeline

MAY	• 'Call for Ideas' - resulted in over 90 proposals • Instruments and approaches selected based on potential to fulfil overarching Lab criteria: Actionable, Innovative, Catalytic and Transformative
JUNE	• **Inaugural Lab Meeting - 3 June 2014** • Selection of shorter list of seven instruments
JUNE- SEPT	• In-depth analysis of seven short-listed instruments
SEPT- OCT	• **Lab Advisor Meeting - 20 October 2014** • Selection of four instruments
OCT- MARCH	• In-depth analysis four selected instruments • Dedicated communications and outreach
MARCH-APRIL	• **Final Lab Meeting - 16 April 2015** • Endorsement of final instruments and implementation plans
SPRING 2015	• Piloting of instruments • Evaluation of progress to-date • Organization of second Lab cycle as appropriate

Lab instruments

CATEGORY	INSTRUMENT
Aggregation Platform	Renewable Energy Platform for Institutional Investors (REPIN)
Primary Deal Flow	**Climate Development & Finance Facility (CDFF)**
	Debt Fund for Prepaid Energy Access
	Global Renewable Independent Power Supplier (GRIPS)
Credit Enhancement	**Agricultural Supply Chain Adaptation Facility (ASCAF)**
Risk mitigation	**Long-term Currency Swap**
	Energy Savings Insurance

Climate Development and Finance Facility (CDFF)

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Climate Development and Finance Facility (CDFF)

The key innovation for this instrument is providing a pipeline of bankable projects and removing complexity from construction finance. There are many facilities but few target both together.

DESIGN:

A new entity managed by FMO and a private sector fund manager that would set up three facilities for different phases of the project cycle:

- **A Donor-Funded Development Facility** (DF) to co-develop projects up to 50% of costs until financial close;
- **A Construction Finance Facility** (CFF), funded by development finance institutions and commercial investors, providing equity capital up to 75% of construction costs
- **A Refinance Facility** of private investors to provide long-term, low-cost debt capital due to lower risks post-construction

Climate Development and Finance Facility (CDFF)

Target Sectors	Target Regions	Private Finance Targets	Implementing Institutions	Other Key Stakeholders
Energy	Low and lower-middle income countries *Pilot: 10 projects*	Private Equity and Institutional Investors	Dutch Development Bank (FMO)	Donors, Development Finance Institutions, Local Banks, Local Governments

Climate Development and Finance Facility (CDFF)

KEY FINDINGS FROM ANALYSIS

The CDFF is uniquely innovative in combining:

- **Project origination**, reduction of complexity of finance among multiple lenders
- Private investor hurdles at **construction and operation**

However, there is a challenge in reducing complexity internally within three facilities

Pilot of 10 projects:

- **$150 million** injection of **donor capital**
- **$2 billion+** of **private finance mobilized** in recyclable facility

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Climate Development and Finance Facility (CDFF)

NEXT STEPS

Proponent has undertaken significant preparatory work and engagement:

- Identifying donor capital to facilitate start-up
- Seeking partnership arrangements with other development finance institutions
- Finalizing effective governance arrangements across the facility
- Developing a strategy to market and investor propositions

Agricultural Supply Chain Adaptation Facility (ASCAF)

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Agricultural Supply Chain Adaptation Facility (ASCAF)

ASCAF aims to build farmers' technical capacity and access to medium and long-term finance for climate resilience. It enables them to make investments that would increase crop productivity while reducing the climate vulnerability of agricultural value chains.

DESIGN:

Value chain finance platform structured as a lending facility supported by a donor trust fund. This platform would allow multilateral development banks:

- Deploy first-loss credit protection; and
- Partner with agribusiness corporations to provide technical and financial capacity assistance through to their supply chains

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Agricultural Supply Chain Adaptation Facility (ASCAF)

Target Sectors	Target Regions	Private Finance Targets	Implementing Institutions	Other Key Stakeholders
Agriculture & forestry	Lower & middle-income countries *Pilot: Latin American and Caribbean countries*	• Intermediate: Agribusiness corporations • Ultimate: Small- to medium-sized producers and/or processors in corporations' agriculture-value chains	• Inter-American Development Bank (IDB) • Calvert Investments	• Donors • Third-party public or private lenders

Agricultural Supply Chain Adaptation Facility (ASCAF)

KEY FINDINGS FROM ANALYSIS

Harnesses the alignment of interests existing between buyers and suppliers to incentivize investments that would, potentially:

- **Lead to productivity gains**, which could enhance the resilience of livelihoods for an estimated ~63k-420k farm households
- **Demonstrate** the viability of long-term financing to farmers, which would enable public support to phase out
- **Reduce the carbon footprint** of supply chains

Agricultural Supply Chain Adaptation Facility (ASCAF)

NEXT STEPS

Proponents have determined draft characteristics of the Facility and engaged in business outreach activities

What is needed now?

- **Donor resources** to assume the first-loss position that multilateral development banks and other market-based lenders are not able or willing to take
- **Multilateral Development Banks' financing, know-how, and relationships**
- **Context-specific analysis** to identify the most adequate portfolio of eligible investments options
- **Agribusiness corporations'** buy-in to engage supply chains in longer term horizon for climate-resilient investments

Long-term Currency Swap

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Long-term Currency Swap

The Long-term Currency Swap aims to provide long-term risk management in developing market currencies, facilitating the efficient transfer of risk in renewable energy, energy efficiency, and clean infrastructure investments to long-term institutional investors.

DESIGN

Financial Mechanism:

- *A currency swap facility* to directly issue currency swaps
- *A swap guarantee facility* to insure the counterparty credit risk in swap agreements and lessen collateral requirements.

The goal of the pilot is to provide **up to $2.5 billion** in additional risk-carrying capacity to the market.

Long-term Currency Swap

Target Sectors	Target Regions	Private Finance Targets	Implementing Institutions	Other Key Stakeholders
Clean infrastructure	Global emerging markets	Investors including developers, utilities, and banks	• **TCX** for currency swap facility • **IFC** for swap guarantee facility.	Commercial swap providers, Development Finance Institutions, Export-Import Banks…

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Long-term Currency Swap

KEY FINDINGS FROM ANALYSIS

- The instrument is an innovative way to mobilize climate finance and is based on the **proven business models and experience** of implementing institutions
- The instrument will **pursue additional leverage and support the development of commercial swap markets** by exploring market-making opportunities to match currency positions with third parties like pension funds.
- Swaps provide a **direct solution to address exchange-rate risk** and can facilitate greater finance flows to developing countries.

Long-term Currency Swap

NEXT STEPS

To take off, this instrument needs:

- **Donor contributions** to cover the first-loss tranche of the currency swap facility and counterparty risk guarantee facility
- **Public and private equity contributions** to capitalize the currency swap facility
- **Partnerships** with local finance institutions and/or development banks
- **Grant funding** to support technical assistance and the development of long-term scenario building and pricing models

Energy Savings Insurance

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Energy Savings Insurance

Energy Savings Insurance provides an insurance product that assures the financial performance of energy efficiency projects.

DESIGN

Energy Savings Insurance enhances **investor's trust** in the viability of energy efficiency projects through:

- **A risk mitigation instrument** ("insurance") that covers the projected value of energy savings
- **A package of complementary measures** such as credit lines to provide long-term capital, third party validation, and grants

Energy Savings Insurance

Target Sectors	Target Regions	Private Finance Targets	Implementing Institutions	Other Key Stakeholders
Energy Efficiency	Emerging markets *Pilot: Mexico*	SMEs in selected sectors (industry, services, agroindustry)	Danish Energy Agency	Nat. Dev. Banks, Reg. Dev. Banks, EE contractors, local commercial banks, insurers.

Energy Savings Insurance

KEY FINDINGS FROM ANALYSIS

The ESI is innovative in enhancing investor confidence and **trust** in the financial viability of energy efficiency investment

However, it must be part of a **package** of complementary measures supporting energy efficiency, and it benefits from having a local implementing entity

If extended beyond the pilot phase (BRICs and Next 11 countries), ESI can unlock:

- USD 10-100 billion of private finance in developing countries
- Emissions reductions of 27-234 $MtCO_2$

Energy Savings Insurance

NEXT STEPS

The proponent is already well underway with planning the pilot in Mexico.

Beyond the pilot phase, next steps include:

- Providing an update on the lessons learned on the pilot business model and how it influences investment decisions
- Fast-tracking finance and supporting pilot investments in further Latin American countries and other regions

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Looking Forward

- The next **Lab Principals meeting** will take place on the **April 16, 2015**, in New York.

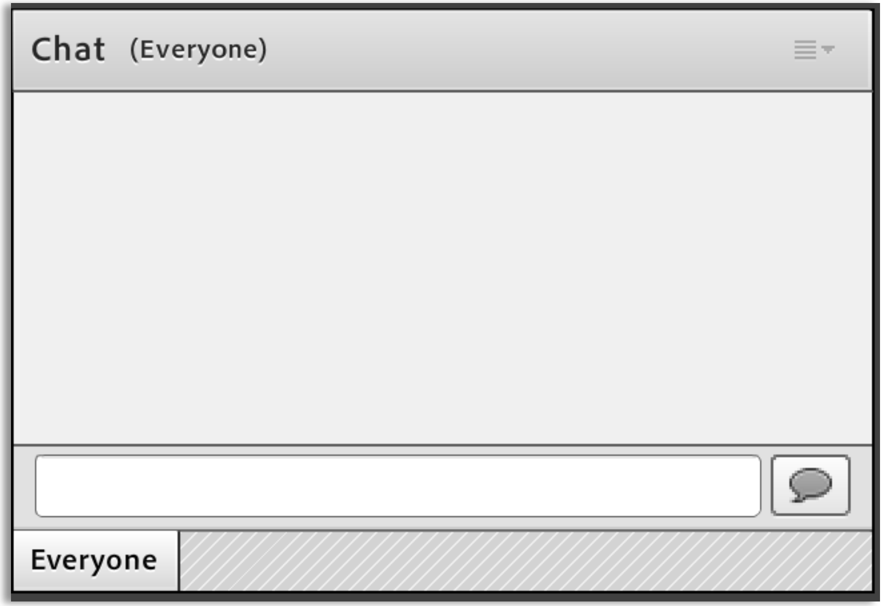
- At this meeting, the Secretariat will **outline pathways for implementation of the four selected instruments**.

- Lab Principals will be asked to **endorse their top instruments and consider recommendations on how, and where, the most promising instruments could be specifically piloted** through Lab-backed public-private partnerships.

- **The Lab's success is increasingly defined by its ability to deliver the promise of moving from talk to action.**

Questions?

Please type questions into the chat box on the lower right-hand side of the screen.



Thank you!

Contact:
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For full analysis of instruments, visit:
www.ClimateFinanceLab.org

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