

# The Global Innovation Lab for Climate Finance

## Update on Instruments

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# Webinar Overview

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What is The Lab?

Objectives and Outcomes

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The Lab Instruments

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# What is The Lab?

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**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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Webinar: The Global Innovation Lab for Climate Finance – Update on Instruments  
10 February 2015

# Objectives and Outcomes

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- **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	<ul style="list-style-type: none"> <li>• ‘Call for Ideas’ - resulted in over 90 proposals</li> <li>• Instruments and approaches selected based on potential to fulfil overarching Lab criteria: Actionable, Innovative, Catalytic and Transformative</li> </ul>
JUNE	<ul style="list-style-type: none"> <li>• <b>Inaugural Lab Meeting - 3 June 2014</b></li> <li>• Selection of shorter list of seven instruments</li> </ul>
JUNE- SEPT	<ul style="list-style-type: none"> <li>• In-depth analysis of seven short-listed instruments</li> </ul>
SEPT- OCT	<ul style="list-style-type: none"> <li>• <b>Lab Advisor Meeting - 20 October 2014</b></li> <li>• Selection of four instruments</li> </ul>
OCT- MARCH	<ul style="list-style-type: none"> <li>• In-depth analysis four selected instruments</li> <li>• Dedicated communications and outreach</li> </ul>
MARCH-APRIL	<ul style="list-style-type: none"> <li>• <b>Final Lab Meeting - 16 April 2015</b></li> <li>• Endorsement of final instruments and implementation plans</li> </ul>
SPRING 2015	<ul style="list-style-type: none"> <li>• Piloting of instruments</li> <li>• Evaluation of progress to-date</li> <li>• Organization of second Lab cycle as appropriate</li> </ul>

# Lab instruments

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

# Climate Development and Finance Facility (CDFF)





# Climate Development and Finance Facility (CDFF)

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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  <i>Pilot: 10 projects</i>	Private Equity and Institutional Investors	Dutch Development Bank (FMO)	Donors, Development Finance Institutions, Local Banks, Local Governments

# Climate Development and Finance Facility (CDFF)

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## 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

# Climate Development and Finance Facility (CDFF)

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## 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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Photo from The World Bank photo collection on Flickr.

# 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

# Agricultural Supply Chain Adaptation Facility (ASCAF)

Target Sectors	Target Regions	Private Finance Targets	Implementing Institutions	Other Key Stakeholders
Agriculture & forestry	<p>Lower &amp; middle-income countries</p> <p><i>Pilot: Latin American and Caribbean countries</i></p>	<ul style="list-style-type: none"> <li>• Intermediate: Agribusiness corporations</li> <li>• Ultimate: Small-to medium-sized producers and/or processors in corporations' agriculture-value chains</li> </ul>	<ul style="list-style-type: none"> <li>• Inter-American Development Bank (IDB)</li> <li>• Calvert Investments</li> </ul>	<ul style="list-style-type: none"> <li>• Donors</li> <li>• Third-party public or private lenders</li> </ul>

# Agricultural Supply Chain Adaptation Facility (ASCAF)

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## 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)

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## 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

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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

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Target Sectors	Target Regions	Private Finance Targets	Implementing Institutions	Other Key Stakeholders
Clean infrastructure	Global emerging markets	Investors including developers, utilities, and banks	<ul style="list-style-type: none"><li>• <b>TCX</b> for currency swap facility</li><li>• <b>IFC</b> for swap guarantee facility.</li></ul>	Commercial swap providers, Development Finance Institutions, Export-Import Banks...

# Long-term Currency Swap

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## 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

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## 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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Photo by Flickr user Cobalt123



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# Energy Savings Insurance

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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

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Target Sectors	Target Regions	Private Finance Targets	Implementing Institutions	Other Key Stakeholders
Energy Efficiency	Emerging markets <i>Pilot: Mexico</i>	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

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## 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<sub>2</sub>

# Energy Savings Insurance

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## 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

## Looking Forward

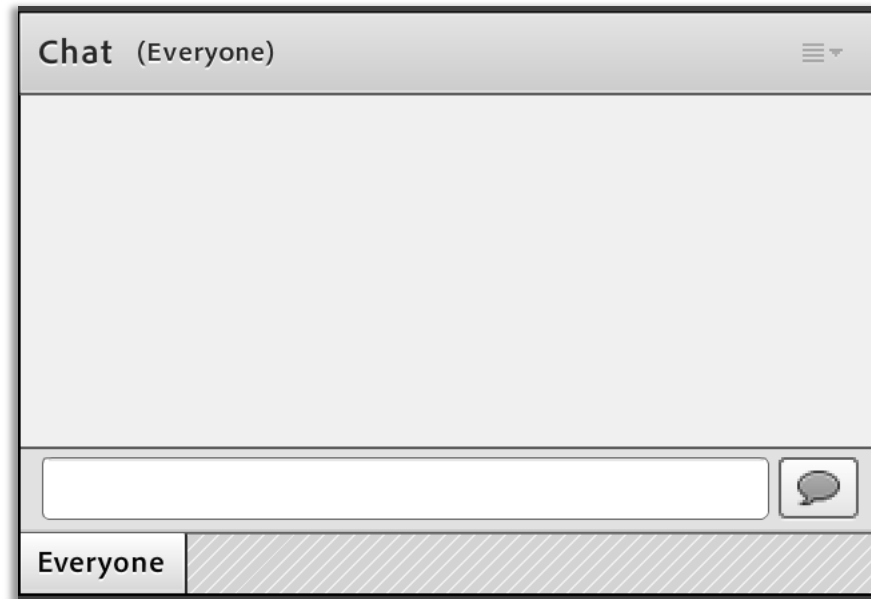
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- The next **Lab Principals meeting** will take place on the **April 16, 2015**, in New York.
- At this meeting, the Secretariat will **outline pathways for implementation of the four selected instruments**.
- Lab Principals will be asked to **endorse 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?

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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](http://www.ClimateFinanceLab.org)