Webinar: New Finance Instruments that Can Drive Billions to Developing Countries

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Global Innovation Lab for Climate Finance

An overview

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The Lab
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Webinar overview

- What is The Lab?
- Objectives and outcomes
- Overarching criteria
- Timeline
- The Lab instruments
- Looking forward

What is The Lab?

The Lab is a global initiative that 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.

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 and their replication backed by real investors, at greater scale and in new contexts

Overarching Lab criteria

- **Actionable**

  Instrument must be implementable in a few years without facing major barriers

- **Innovative**

  Instrument must address risk, cost, and liquidity gaps with new or enhanced tools

- **Catalytic**

  Instrument must engage and mobilize private capital at scale

- **Transformative**

  Instrument must have significant impact and be sustainable and replicable

Timeline

June-Sept.

- **Inaugural Lab Meeting – 3 June 2014**
- In-depth analysis of seven short-listed instruments
- Preparation of Lab Advisor Meeting

Sept. - October

- **Lab Advisor Meeting – 20 October 2014**
- Selection of reduced number of instruments (3-4)
- Refined analytical questions

Oct - March

- In-depth analysis of 3-4 selected instruments
- Dedicated communication and outreach
- Preparation of Final Lab Meeting

March - April

- **Second Lab Principal Meeting**
- Selection of final 2-3 instruments
- Recommendation regarding implementation plan

Spring 2015

- Piloting of instruments
- Evaluation of progress to-date
- Organization of second Lab cycle as appropriate

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Lab instruments

Category	Lab Instrument - Overview
Aggregation platforms	**Renewable Energy Platform for Institutional Investors (REPIN)** *To stimulate renewable energy deal flow and engage institutional investors to increase overall financing at cheaper costs*
Risk Mitigation	**Long-term Currency Swap** *To lower the cost of financing and increase private finance flows to developing countries by mitigating foreign exchange risk for renewable energy projects*
	Insurance for Energy Savings *To provide assurance that energy efficiency projects will generate financial savings*
Primary Deal Flow	**Climate Development & Finance Facility (CDFF)** *To fast-track project finance for climate projects*
	Debt Fund for Prepaid Energy Access *To provide off-grid entry-level renewable home power to five million isolated homes in five years*
	Global Renewable Independent Power Supplier (GRIPS) *To bring renewable energy production and storage to off-grid African industries*
Adaptation and Climate Resilience	**Agricultural Supply Chain Adaptation Facility (ASCAF)** *To improve the Climate Resilience of Agricultural Supply Chains*

Renewable Energy Platform for Institutional Investors (REPIN)

Problem
Institutional investors struggle to provide much-needed long-term financing to RE project finance as opportunities are too small, illiquid and perceived as high-risk.

The instrument
Platform/umbrella of context-specific financial structures to facilitate transactions between project lenders and institutional investors. The structures - Debt pass-through, Aggregation, Securitization - will aim to improve investments' credit quality and size in order to match institutional investors' requirements. When needed, the platform would also include credit enhancement.

Proponent	Target Sector	Geographical Target	Private Capital Targeted
European Investment Bank	Renewable energy	Middle income countries *Pilot: South Africa*	Institutional Investors and commercial banks

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Long-term Currency Swap

Problem
Investors in developing countries have limited access to instruments to manage currency risk.

The instrument
A new entity would, according to markets' needs: • **issue currency swaps** directly absorbing currency and counterparty risk on its balance sheet • **back the swaps** indirectly by supporting developers though credit enhancement which removes counterparty risk

Proponent	Target Sector	Geographical Target	Private Capital Targeted
World Resource Institute	Renewable energy	Asia, Middle East and Latin America, Sub-Saharan Africa *Pilot: 6 countries*	Private equity

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Insurance for Energy Savings

Problem			
Energy efficiency investment by SMEs is limited and mostly self-financed, due to high perceived risk and lack of information on investment performance.			
The instrument			
Complete package of measures that enhance investor's confidence and trust in the viability of EE projects: Local insurers would provide a **new insurance product** that covers the projected value of energy savings **Credit lines** from development banks would provide long-term capital to lower financing costs			
Proponent	**Target Sector**	**Geographical Target**	**Private Capital Targeted**
Danish Energy Agency	Energy Efficiency	Emerging markets *Pilot: Mexico*	SMEs in selected sectors (industry, services, agroindustry)

Climate Development & Finance Facility (CDFF)

Problem
In low and middle income countries, good bankable projects are rare: project development is costly, policies are complex, experience is scarce, finance is constrained and expensive.

The instrument
A new entity managed by FMO that would set up three separate facilities for different phases of the project cycle: • A donor-funded **Development Facility** (DF) co-develop projects up to 50% of value; • A **Construction Finance Facility** (CFF), funded by DFIs and commercial investors, providing up to 75% of capital needed for construction • A **Refinance platform** of private investors would provide long-term, low-cost debt capital due to lower risks post-construction

Proponent	Target Sector	Geographical Target	Private Capital Targeted
Dutch Development Bank (FMO)	Energy; Forestry; Transport	Low and Lower middle income countries *Pilot: 10 projects*	Private Equity and Institutional Investors

Debt Fund for Prepaid Energy Access

Problem
600 million people in Sub-Saharan Africa lack access to electricity: Prepaid off-grid solar systems could reduce this number, however access to working capital is limited.

The instrument
A **fund providing working capital** to suppliers of prepaid off-grid renewable energy services, through a **mix of asset finance and consumer debt**. The fund would raise an initial target of USD 50 million as debt from banks, institutional investors and DFIs. Public financing (loan guarantees or first loss/mezzanine) and credit rating of the consumer pools will reduce associated loan risks.

Proponent	Target Sector	Geographical Target	Private Capital Targeted
Azuri Technologies	Off-grid renewable energy	Low income countries *Pilot:* Sub-Saharan Africa	Commercial banks and Institutional Investors

Global Renewable Independent Power Supplier (GRIPS)

Problem
A significant portion of industrial activity in Sub-Saharan Africa relies on off-grid electricity produced by expensive and unreliable diesel generators.

The instrument
A **new private sector entity ("GRIPS")** would develop, build, and own a diversified pool of decentralized renewable energy assets, based on standardized, low-risk technologies. GRIPS could favor access to electricity for the surrounding communities - e.g. *grid islands.* The **100% equity-funded portfolio approach** would enable GRIPS to offer more appealing short-term power purchase agreements to reliable and creditworthy industrial off-takers, while spreading single-deal risk across the assets pool

Proponent	Target Sector	Geographical Target	Private Capital Targeted
Deutsche Bank	Off-grid renewable energy	Initially Sub-Saharan Africa *Pilot: Nigeria, Kenya and South Africa*	Project sponsors, institutional investors, family offices

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Agricultural Supply Chain Adaptation Facility (ASCAF)

Problem
In developing countries, small-to-medium producers have difficulty accessing long-term finance and limited knowledge of suitable climate-resilience measures.
The instrument
The **new fund** would target credit risks and capacity gaps to enable companies to extend medium to long-term loans and know-how to their suppliers for investments in measures which could improve crops productivity and ultimately the climate resilience of supply chains. ASCAF would be a **value chain financing mechanism** that provides, through Multilateral Development Banks, agricultural corporations with donor-backed first loss guarantees and finance for technical assistance

Proponent	Target Sector	Geographical Target	Private Capital Targeted
Calvert Investments & IDB	Agriculture & Forestry	Low & middle-income countries *Pilot: Latin America and Caribbean*	Agricultural corporations SME producers / processors

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Looking forward

- In-depth analytical work has continued on the seven selected instruments, following the inaugural Lab meeting
- A written report summarizing the analytic findings for the seven instruments will be published at the end of November 2014
- The Secretariat will present the preliminary analysis at the Lab Advisor Meeting on 20 October 2014 in Venice. Lab Advisors, in consultation with their Principals, will select the most promising three to four for further in-depth analysis and development.
- Analysis will continue until spring 2015, outlining implementation pathways, and challenges for a potential pilot phase

Thank you!

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