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LEAD
LOW EMISSIONS ASIAN DEVELOPMENT PROGRAM

What is Needed to Scale up Private Sector Finance?

Presented by:
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Bangkok, Thailand

Presented at:
Regional Workshop on Options for an Innovative Climate Finance Regime in South Asia
New Delhi, India

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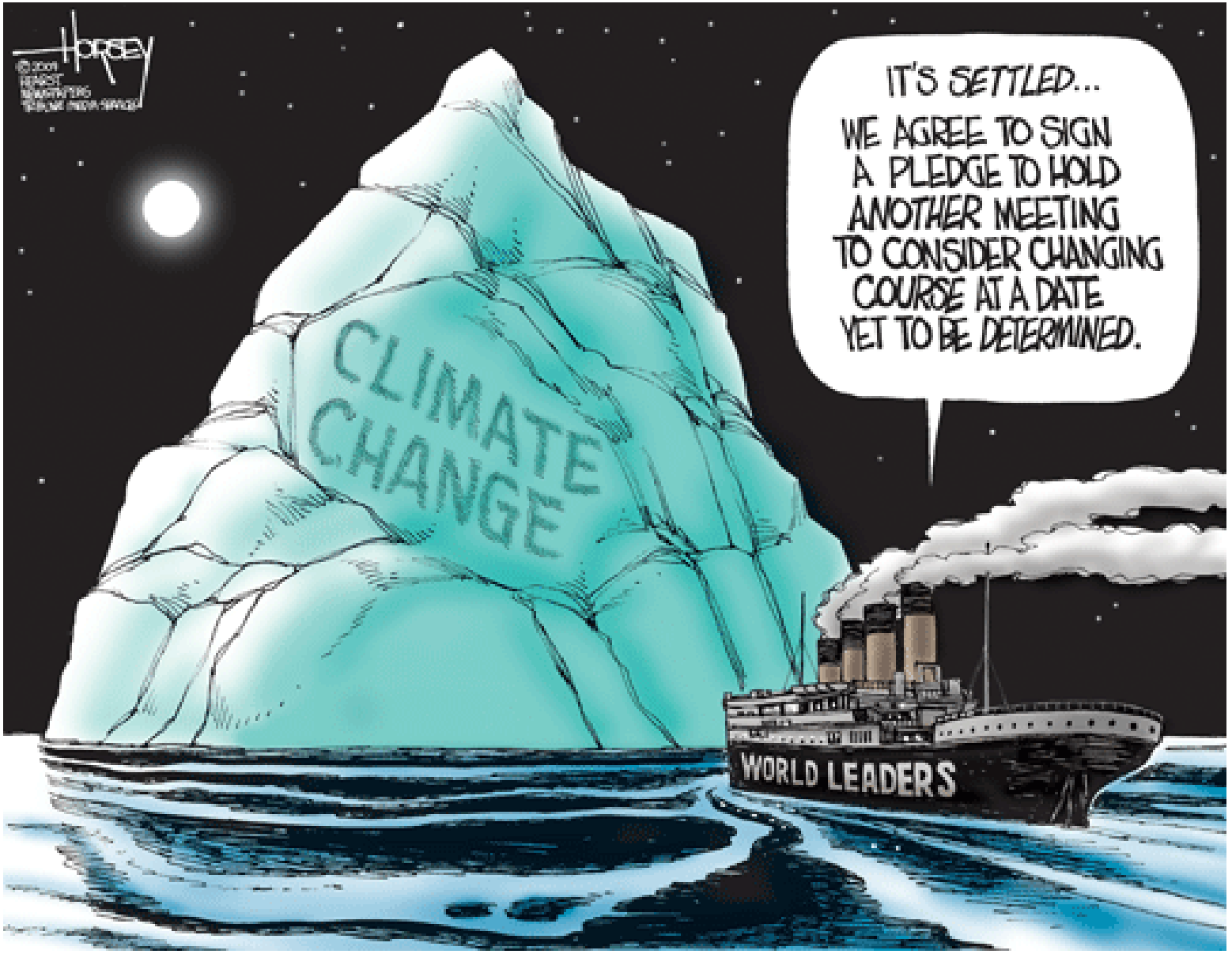
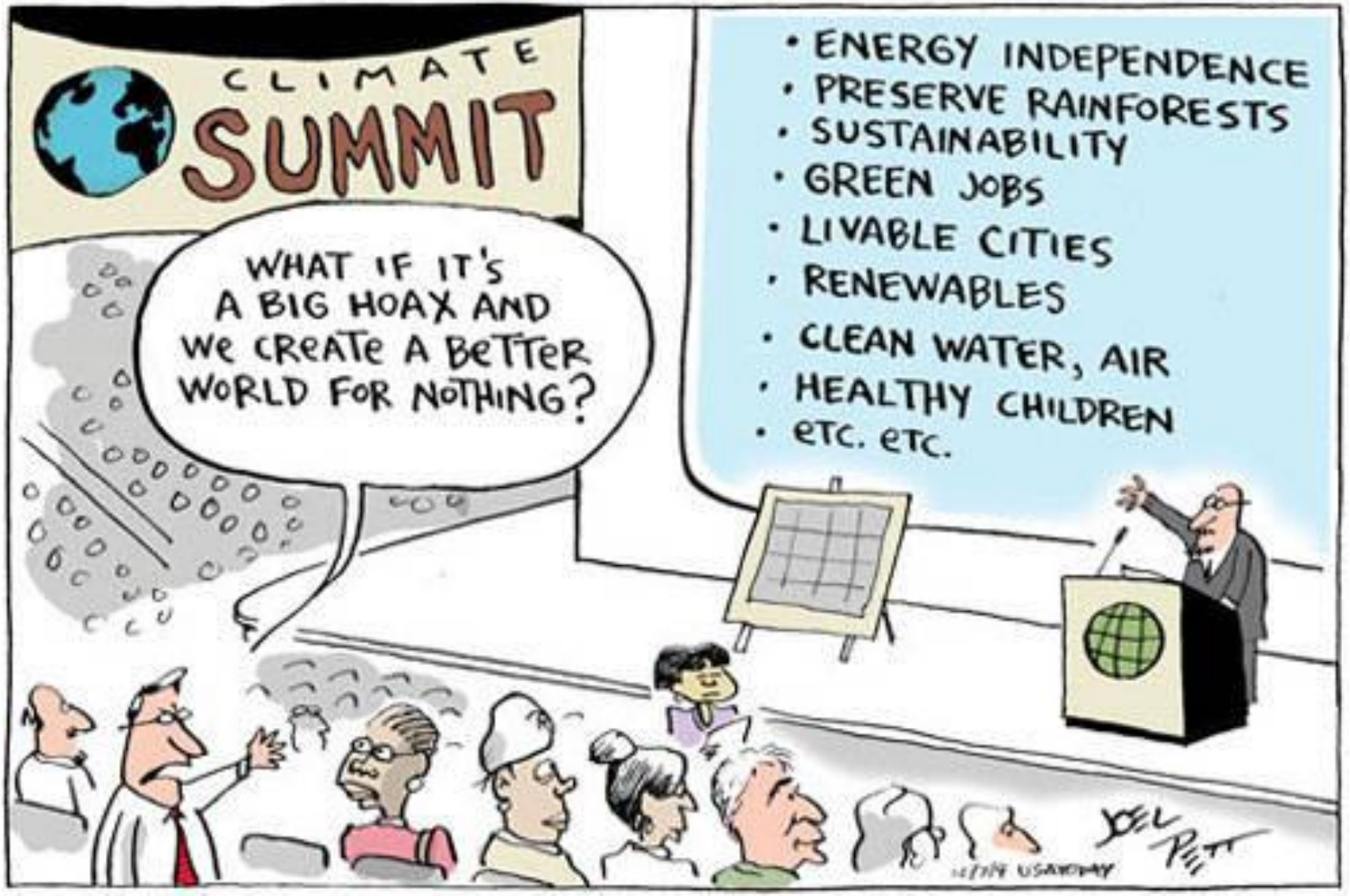
Topics Covered in Report

- Climate Change Funnies
- What is Climate Finance (again!)?
- Nature of Private Sector Finance
- Climate finance capacity needs identified in recent LEAD program activities

The Urgency of Climate Change Meetings



Co-benefits?

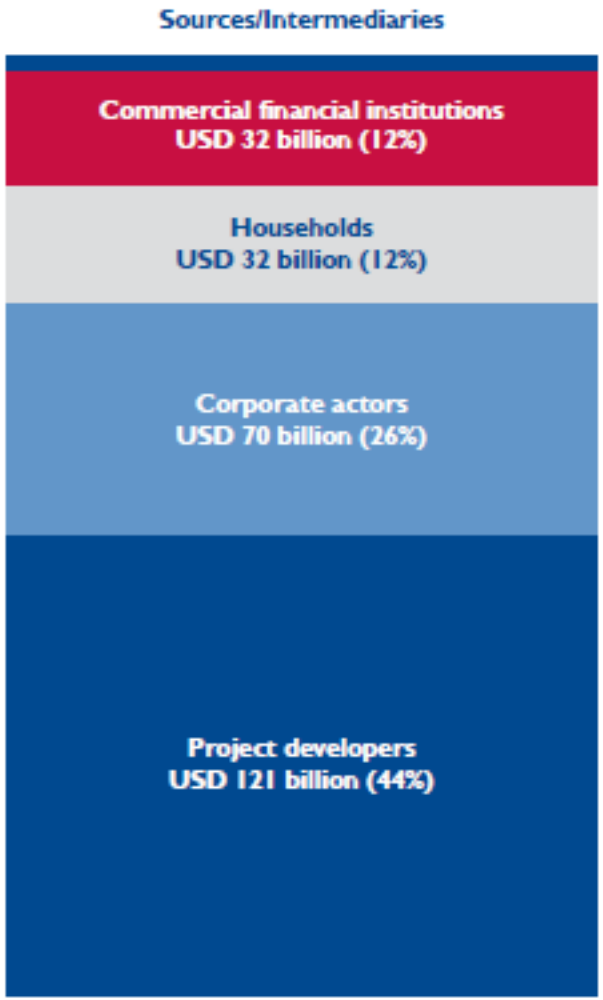

CLIMATE SUMMIT
WHAT IF IT'S A BIG HOAX AND WE CREATE A BETTER WORLD FOR NOTHING?
• ENERGY INDEPENDENCE
• PRESERVE RAINFORESTS
• SUSTAINABILITY
• GREEN JOBS
• LIVABLE CITIES
• RENEWABLES
• CLEAN WATER, AIR
• HEALTHY CHILDREN
• ETC. ETC.
JOEL PETT

What is Climate Finance?

- Investments toward a low-carbon and resilient economy (broad definition)
- Adaptation finance: investing for increased resilience
- Mitigation finance: investing for reduced emissions
- Public and private sector investments
- Incremental and capital investments

Source: WRI

Breakdown of Private Finance



Small slices at top of chart:

- Venture capital, private equity & infrastructure funds, USD 2 billion (<1%)
- Institutional investors, USD <1 billion (<1%)

Small slices at top of chart:

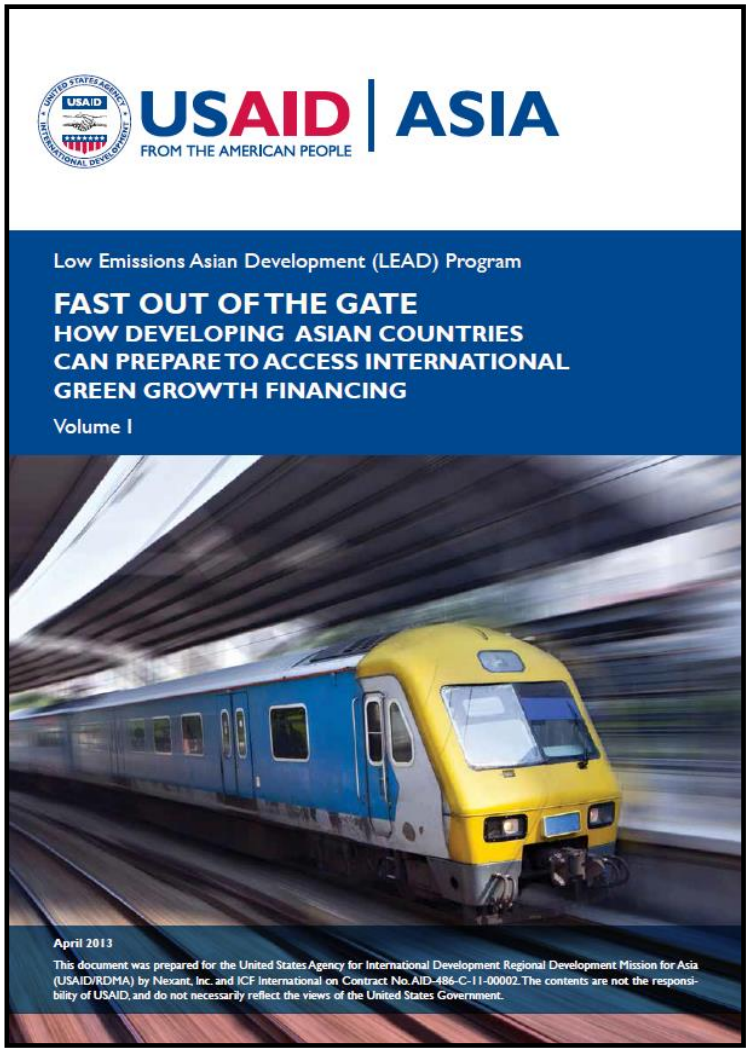
- Carbon offset finance, USD 5 billion (2%)
- Low-cost project debt, USD <1 billion (<1%)
- Grants, USD <1 billion (<1%)

Actors in Private Sector Finance

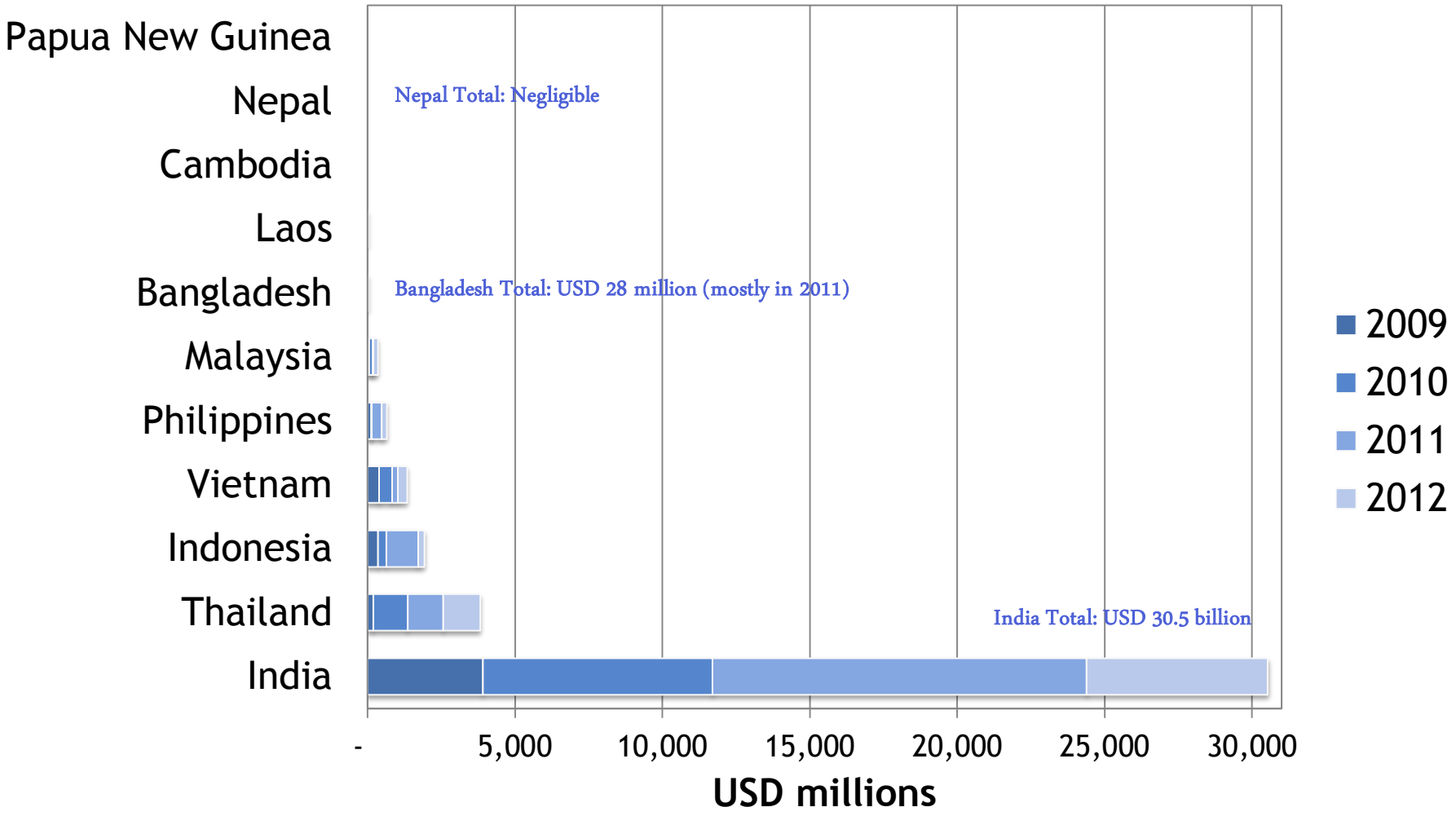
- asset management companies
- private equity and venture capital
- hedge funds
- pension funds
- public-private partnerships
- university endowments
- insurance companies
- family offices and high net individuals
- climate bonds
- commercial banks

Key Findings related to the Private Sector from the *Fast out of the Gate* Report

- The private sector dominates flows, but still needs to be educated and engaged.
- About $230 billion per year is invested globally by the private sector in climate activities
- *Almost all of this private sector financing is for **mitigation**, not **adaptation**!*
- MRV systems are crucial to access public finance.



Private Sector Climate Finance in LEAD Countries



Source: Bloomberg New Energy Finance 2013

Capacity-building Needs Identified (1 of 2)

Capacity Building Need Identified	Govts.	Banks and FIs	Other (NGOs, academics, etc.)
Establish regulatory frameworks and MRV systems that support climate financing	✓	✓	✓
Build the capacity to bridge the gap between project proposals and available financing	✓		✓
Develop processes to understanding linkages between public budgets and climate finance	✓		✓
Focus on national and sub-national coordination on finance	✓		✓
Build awareness of, and capacity for, climate financing among private sector banks and investors		✓	
Blend concessional financing with private sector financing	✓	✓	✓
Develop a learning network for effective policy, regulatory, and market mechanisms	✓	✓	✓

Source: USAID LEAD, *Fast out of the Gate*

Capacity-building Needs Identified (2 of 2)

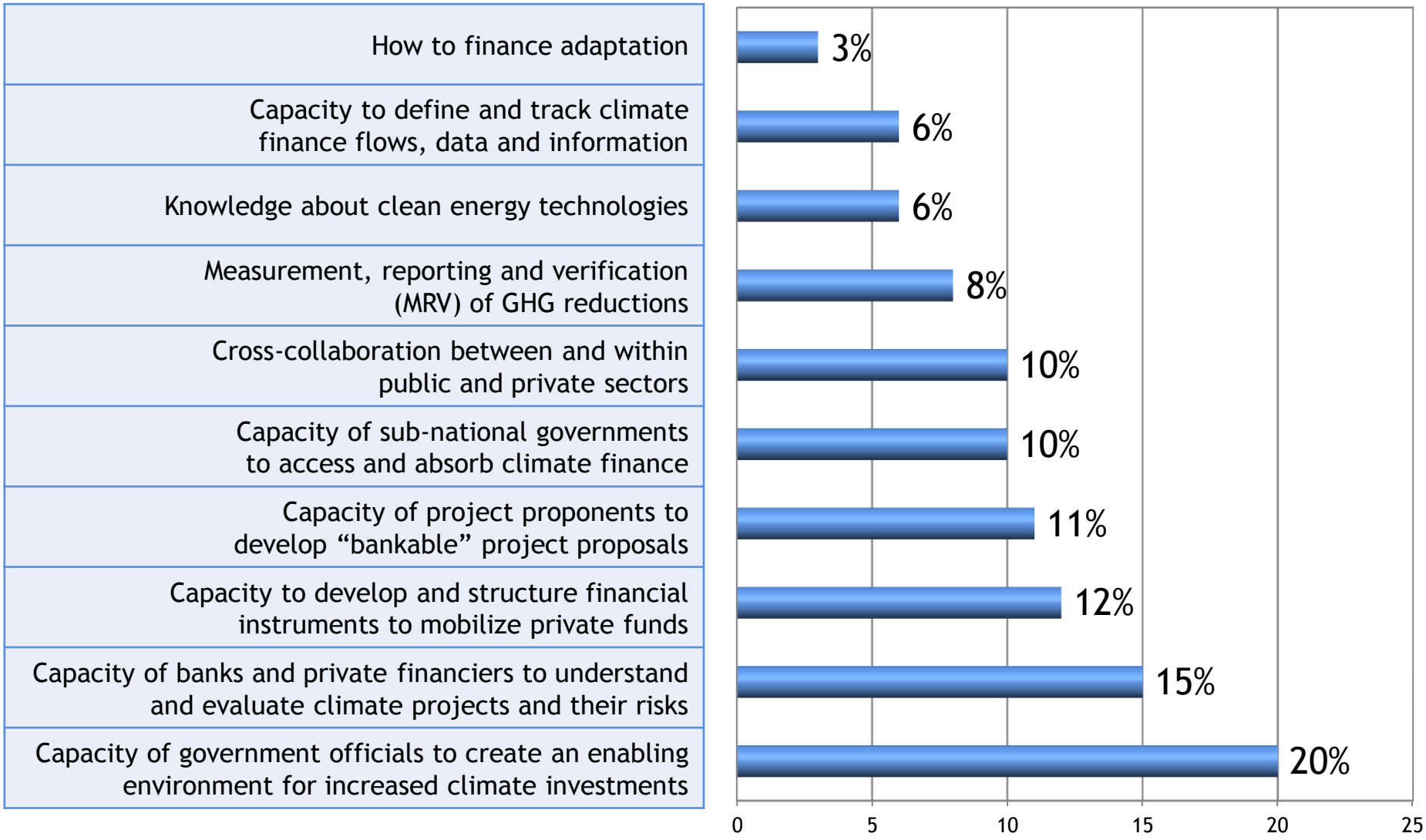
Capacity Building Need Identified	Govts.	Banks and FIs	Other (NGOs, academics, etc.)
Establish financing mechanisms for smaller-scale infrastructure		√	
Develop a pipeline of bankable climate finance projects			
Train utility officials in renewable energy financing	√		√
Hold roundtable for fund managers on climate investments		√	
Help the countries that most need the help	√		√
Facilitate access to climate financing	√	√	√

Source: USAID LEAD, *Fast out of the Gate*

Asia LEDS Partnership Workshop on Financing Green Growth

- Preparing for Scaled-up Climate Financing: New Business Opportunities for Green Growth

Capacity building needs to scale-up climate financing



Source: Asia LEDS Partnership Climate Finance Workshop, April 2013

Bank Perspectives

- Asian banks willing to engage in RE projects but additional capacity building is required (perceived risks are high)
- Private investors face many diverse risks when considering low carbon and climate resilient investments
- Feed-in-tariffs (FiTs) are playing an increasingly important role (but can also be a limitation)
- RE investment cannot flow properly without effective and smart policies and regulations
- Policy makers require a better technical understanding of RE technologies and markets

Source: Asia LEDS Partnership Climate Finance Workshop, April 2013

Investor Perspectives (1 of 2)

- The finance sector doesn't have a good understanding of renewables.
- Many clean energy funds are being set up in Asia. Strict investment criteria limit equity investments.
- Perceived risks are relevant to new markets and technologies: need to mitigate these risks.
- Private sector sensitive to political and regulatory risks given long time horizons (e.g. 20 year exposure to changes in regulations)
- One barrier to private sector involvement is that climate finance and cleantech are presented as a "new thing."

Source: Asia LEDS Partnership Climate Finance Workshop, April 2013

Investor Perspectives (2 of 2)

- An insurance facility for mitigating biomass supply risk should be developed for biomass projects.
- In order to increase private sector investments an ***open and unbiased dialogue*** must occur between the PUBLIC and PRIVATE sectors to facilitate learning and trust-building.

Source: Asia LEDS Partnership Climate Finance Workshop, April 2013

Public Sector Role in Leveraging Private Finance

- *There is a clear and important rationale for the public sector to help leverage private climate finance.*
- They key role of the public sector should be to:
  - Create an enabling environment (competitiveness, legal regulatory framework);
  - Increase the absorptive capacity of recipients;
  - Take on risks that the private sector isn't able to bear.
- Additional points:
  - Public should also be leveraging know-how and their knowledge of how the market works.
  - Public sector should engage those who actually "do" the finance (e.g., bankers, investors) when designing public instruments.

Source: Asia LEDS Partnership Climate Finance Workshop, April 2013

Simple Proposition

- To the extent possible, public mechanisms should be tailored to leverage and generate *additional private sector investment*
- Why?
  - To increase the impact of the available funds
- How?
  - Through public-private partnerships, innovative mechanisms, such as risk-sharing or market-based instruments
- A challenge:
  - Developing PPP models for climate change adaptation

Some Examples from Mitigation (1 of 2)

- Uganda GET FiT Program
  - Seeks to add 125 MW of RE capacity through 10-25 projects
  - Requires $90 million of donor funding to “top up” the Feed in Tariff (FiT)
  - Will use guarantees issued by World Bank
  - Will leverage approximately $350 million in private sector financing (1:4 ratio of public:private)
  - Has local ownership (through close cooperation with Ugandan government and Electric Regulatory Authority.

Some Examples from Mitigation (2 of 2)

- Gujarat Solar Rooftop Program
  - The state of Gujarat has a strong commitment to renewable energy and a long-term goal to make the provincial capital of Gandhinagar a solar powered city.
  - Pilot project of 5 megawatts (MW) of grid connected rooftop solar panels
  - Designed to combine public funding with private sector investment.
  - ***The IFC provided funding and technical assistance, while the Government of Gujarat took over the leadership with the biddings.***
  - Key success factors : availability of rooftop inventory; attractive FiT; renewable purchase obligation for renewable energy (solar); incentives for individual rooftop owners and a robust payment mechanism for investors (e.g. letter of credit, Escrow, and reliable credit ratings).

Thank you!

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For more information about the
USAID Low Emissions Asian Development (LEAD) Program, visit
http://LowEmissionsAsia.org