LEVERAGING PRIVATE FINANCE FLOWS FOR CLIMATE CHANGE

Preliminary Findings (paper is under peer review)

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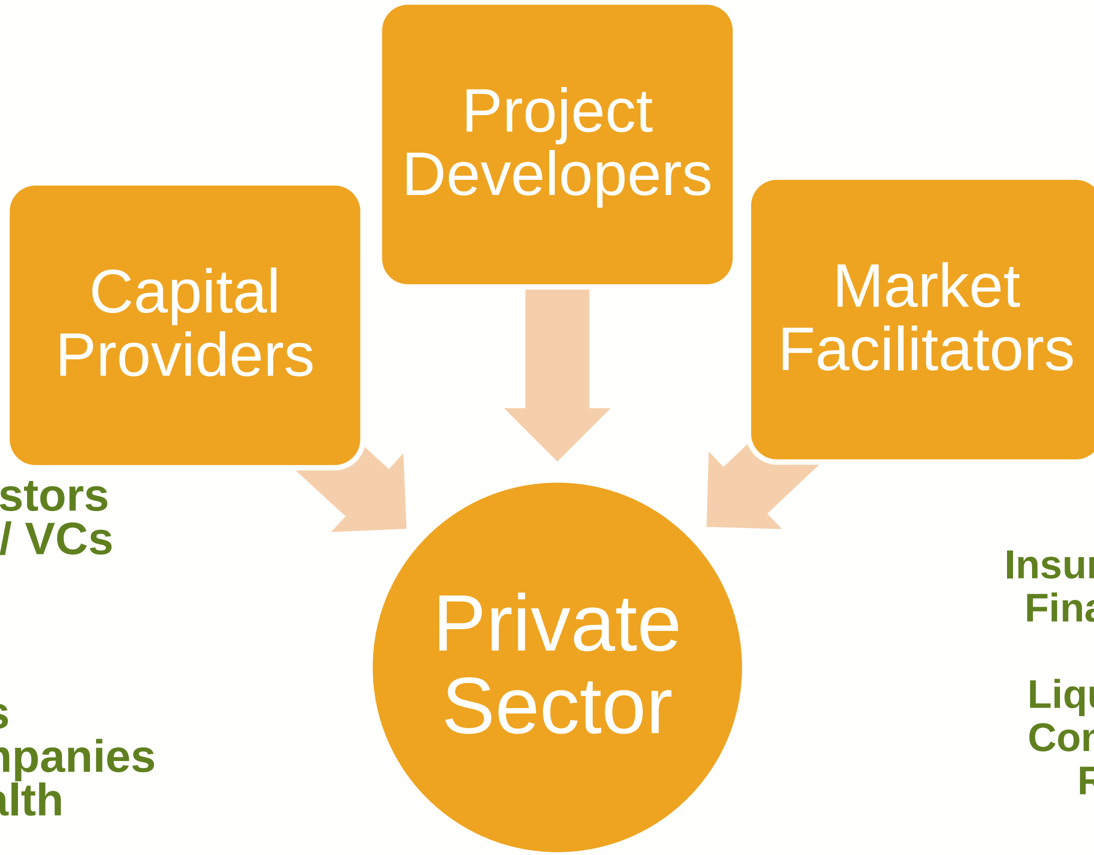
Presentation for XXX

The private sector is a heterogeneous group!

SMEs and Corporations
Public-Private Partnerships



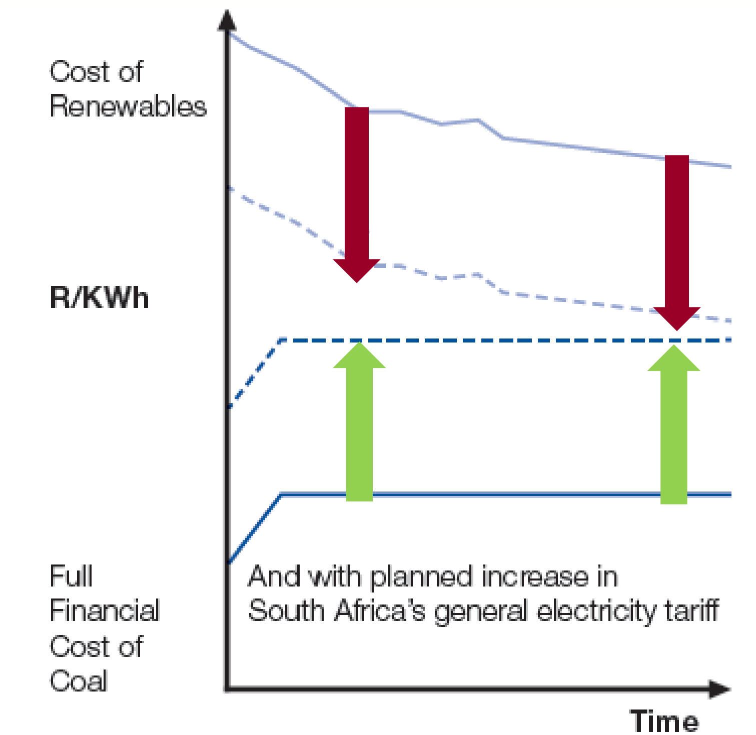
Individual Investors
Private Equity / VCs
Hedge Funds
Mutual Funds
Endowments
Pension Funds
Insurance Companies
Sovereign Wealth Funds

Supply Chain
Insurance Providers
Financial Advisory/ Servicers
Liquidity Providers
Commercial Banks
Rating Agencies
Data Providers

How can the public sector target its actions?
A mix of policy and financial interventions

2010 South African government initiative to source 15% of grid capacity from renewables: $50 B by 2020

Estimated cost



Actions to increase financial cost of coal

Actions to decrease cost of renewables

Domestic Actions

- REFIT: a feed-in tariff for wholesale renewables
- Increase existing general carbon levy
- Introduce new levy on energy intensive exporters

International Action

- Concessional debt linked to currency hedges and policy insurance
- Zero Interest Mezzanine Finance
- Technical expertise of international investors will help fill the knowledge gap for clean energy investments in the South African market

Source: Adapted from Critical Mass Initiative "Scaling Up Low-Carbon Infrastructure Investments in Developing Countries" January 2011, Center for American Progress and Global Climate Network "Investing in Clean Energy: How to Maximize Clean Energy Deployment from International Climate Investments" November 2010

What should public support do?

- Cr**owd-in"** *"additional"* private capital, that is leverage and not displace private capital
- **Catalyze** flows at the lowest public cost and risk while supporting finance flows to priority sectors and institutions
- **Complement**—through coordination other public and private financial flows;
- **Contribute** to the longer term *commercial* viability of climate-friendly sectors.

Objective of the Analysis

- To improve understanding of how donors and public intermediaries use financial and other instruments to increase private climate finance flows
  - Includes a broad survey of how 32 Public Financing Institution’s use instruments
  - Contains a focused analysis of three financial intermediaries – GEF, CTF and WBG

Focused Analysis of GEF, CIF and WBG

- Scanned 7000 projects, but focused on 218 ‘climate’ projects; of these, all but 17 addressed mitigation of GHGs
- Projects have a total cost of approximately $60B?
- Almost half the GEF projects (35 of 80) included a private sector contribution ranging from 1 to 97 percent…WBG made contributions to 30% with an average contribution of 41 percent

Focused Analysis of GEF, CIF and WBG

- IBRD/IDA projects with a GEF component had significantly greater private participation compared to non-GEF projects. However, most of these were in big emerging economies.
- Analyzed 28 CTF projects; all but 2 in the energy sector and only about 19 had sufficient information
  - Total cost about $28 B/$6.8 B public finance

Focused Analysis of GEF, CIF and WBG

- The WBG units vary in their ability to directly leverage private sector participation
  - IBRD and IDA have limited ability since their clients are public sector entities
  - IFC and MIGA have mandates to foster private sector participation, but much of their data is confidential – only 5 percent in ‘lower income’ countries
  - MIGA political risk guarantees of private sector debt could have a transformational impact in high sovereign risk countries, but have been used sparingly

Some Preliminary Impressions

- Need to go beyond loans to grants and equity and guarantees to mitigate risks investments
- Integrate domestic policies with robust financial markets with projects
- Target grant support to markets where access to finance is most challenging and where it can be instrumental in market development
- Capitalize the GCF in a manner that allows maximum flexibility to use different instruments

Some Preliminary Impressions

- More can probably be done to increase incentives within the WBG to proactively consider options to increase private sector participation
- Improved monitoring and data transparency is needed to identify and identify best practices in leveraging
- Streamlining fee structures and transaction processing times for all products, but particularly non-loan, non-grant instruments

Final Remarks

- Making generalized assumptions about how much private money can be raised through public funds is risky…
- If you want to know whether, to what extent and how public intermediaries can use financial and other instruments most effectively to increase private climate finance … delve into the data!