Leveraging/Mobilising Climate Finance
- lessons learned and implications from Development -

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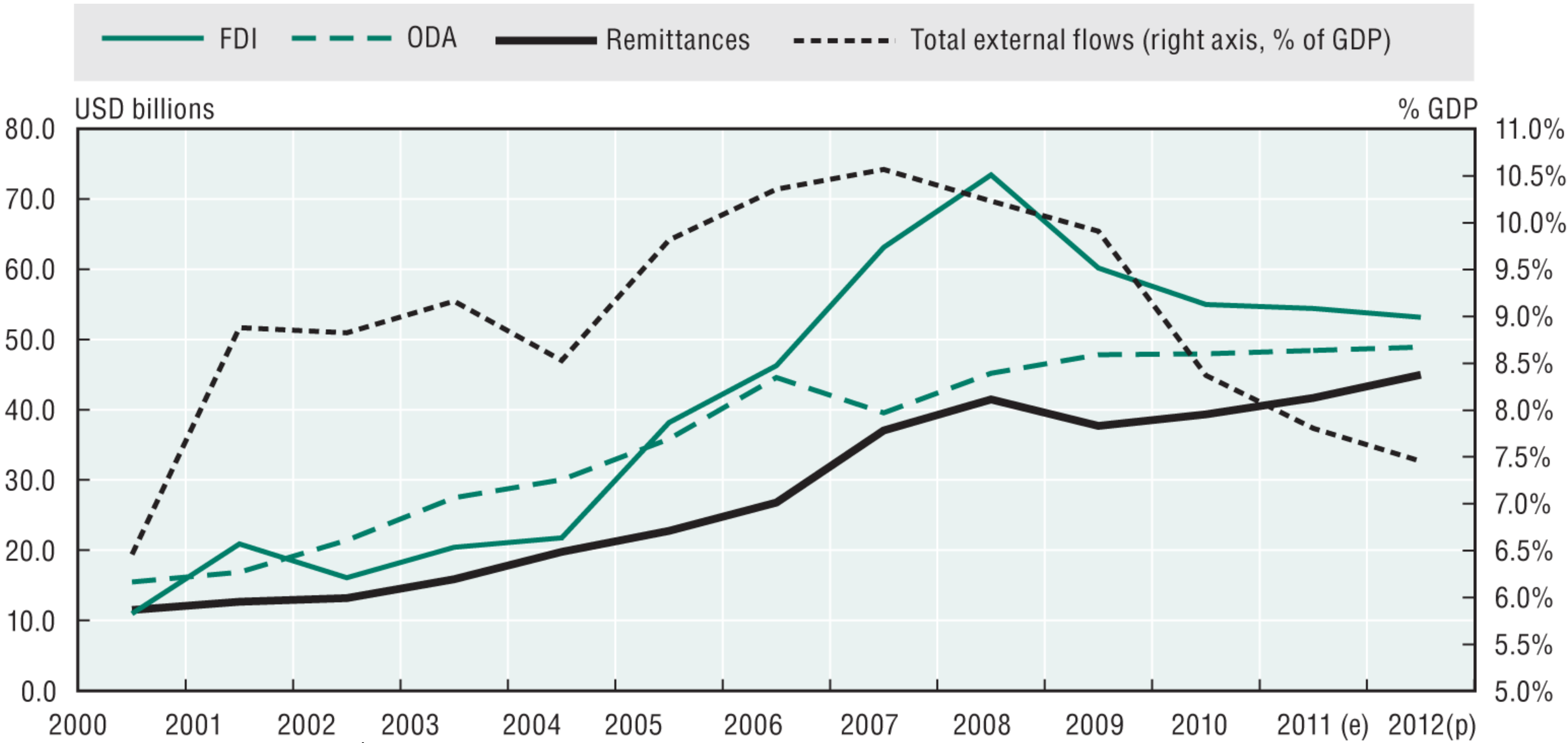
External Financial flows to Africa

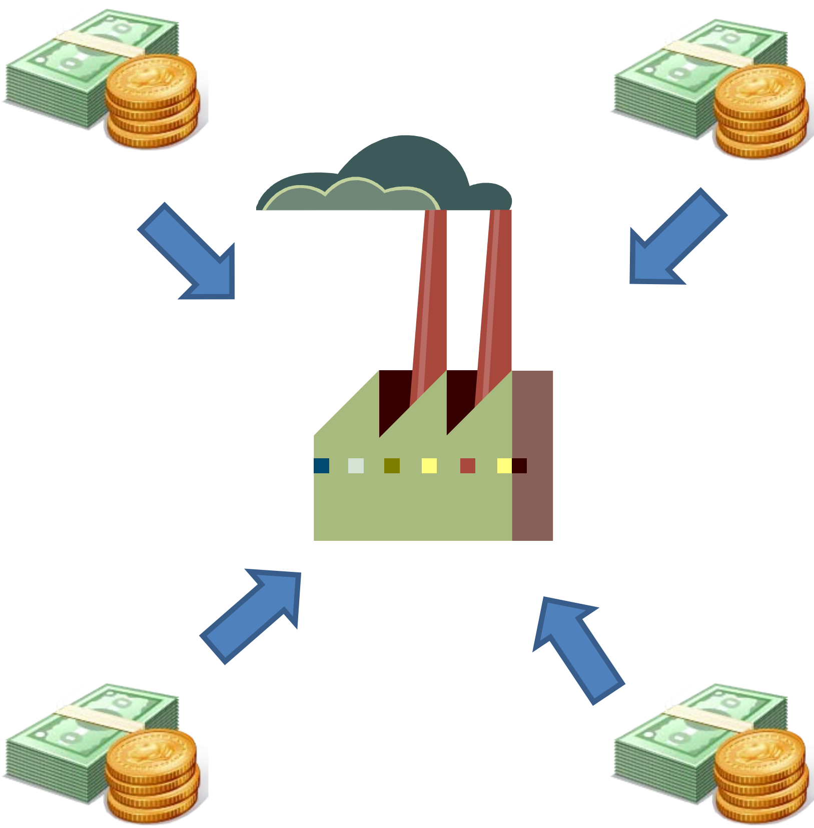


Source: UNCTAD, OECD/DAC and World Bank. GDP forecast for 2012 from IMF.
Extracted from Africa Economic Outlook (2012)

- External financial flows to Africa is constantly increasing despite decreasing of FDI due to global financial turmoil.

“Mobilising” and “leveraging”

- Mobilising finance



Collect money for the project

- Leveraging finance

Use small money to generate big money

Challenge on mobilising /leveraging private climate finance

- Profitability

  Max (Profit) = Max (Revenue) – min(Cost)

  - Direct Cost
    - Fixed cost (eg. Construction cost)
    - Variable cost (eg. Operation Cost)
  - Indirect Cost
    - Risks → Uncertain costs

Lessons Learned on the effectiveness of mobilising/ leveraging private climate finance

- Enabling environment
  - Competitiveness
    - Need to create appropriate market where climate technology can compete against conventional technologies
    - Provide equal competitive environment for private sector players.
  - Legal & regulatory framework
    - Some risks can be managed by private sector under appropriate legal and regulatory framework
      - Political and institutional risks, exchange risks etc cannot be managed by private sector
- Absorptive Capacity of recipient
  - Economic scale
  - Management capacity etc

Lessons Learned on the effectiveness of mobilising/ leveraging private climate finance

- Role of public sector – toward enabling environment
  - Market creation and absorptive capacity development
    - Initiate pilot program –Demonstration effect
    - Develop and implement appropriate policies to attract private sector investment (not only climate change policies but also economic, development and financial policies)
    - Incentive mechanism (Subsidy, Tax , etc)
  - Risk sharing
    - Participate as share holder, provide guarantee – cover political and/or institutional risks
    - Off-taking of products (e.g.FIT)
    - Burden sharing

Lessons Learned on the effectiveness of leveraging private climate finance
- example -

- Power sector

- Preferential investment condition in climate change related projects

- Feasibility Study supported by public finance
- Constructed and Operated by Private Sector with subsidy

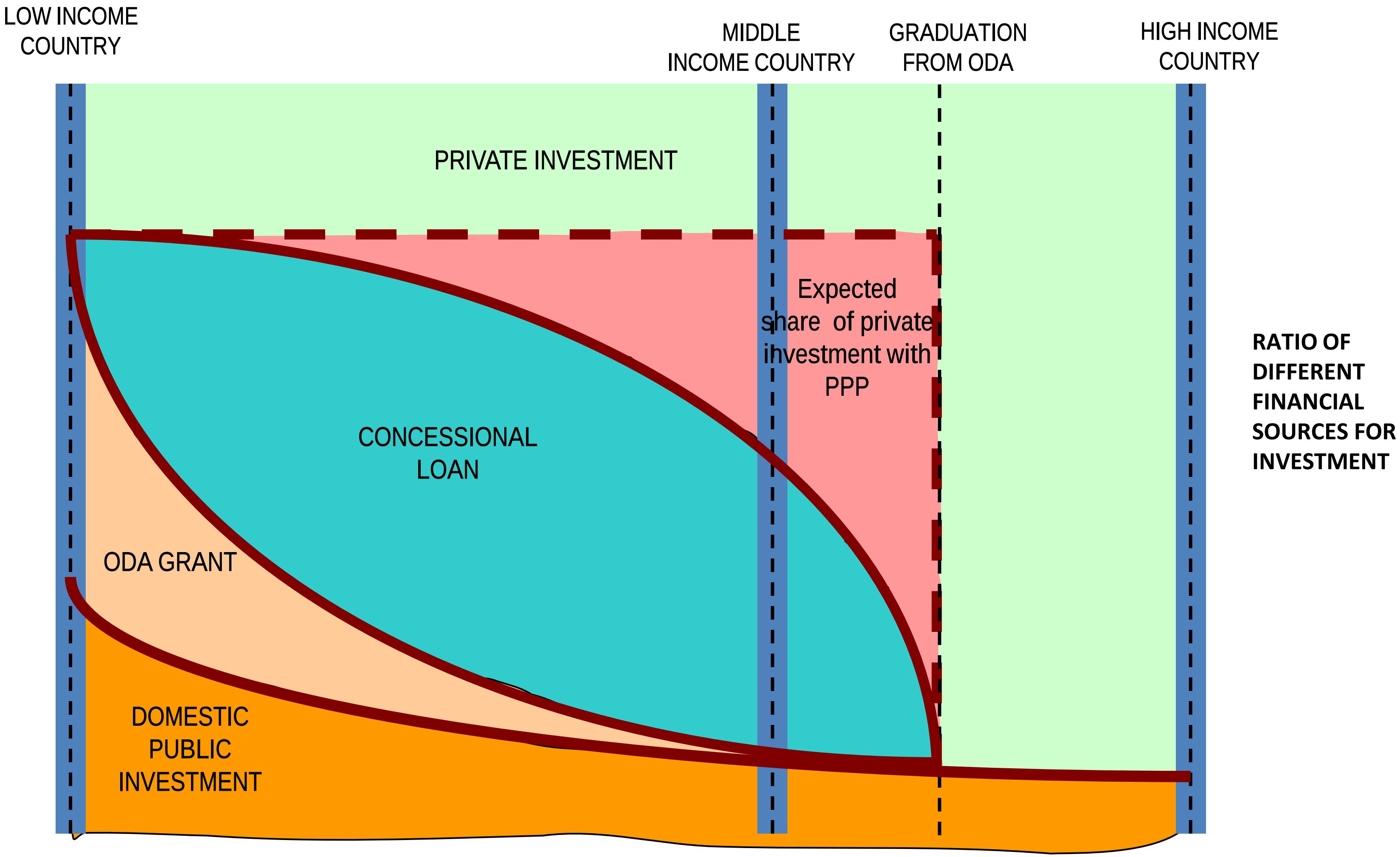
- Well documented contracts such as PPA

- Constructed and Operated by Public sector

Enhancing effectiveness

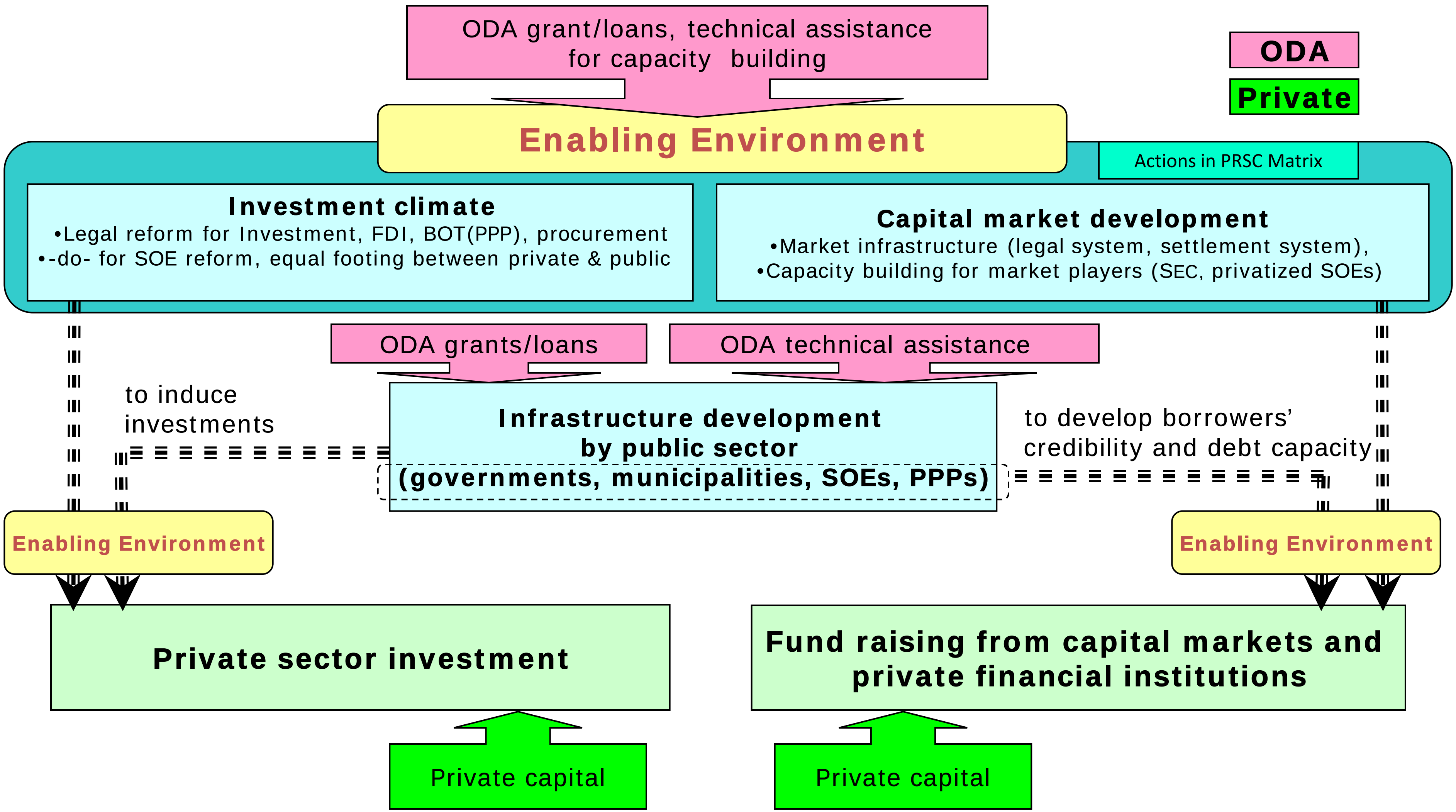
Burden sharing

Conceptual Figure: Expected Share of Private Investment with PPP



Enhancing effectiveness

- Catalytic Roles of ODA



Conclusion

- Public sector should play a critical role to leverage private climate finance.
  - Enabling environment will be created by public sector. Public sector should understand the private sector’s business behaviour through consultation process.
  - Public finance source may be limited…but it can be used as seed to create enabling environment for private sector investment.
  - ODA plays a catalytic role in development to assist creation of enabling environment through technical and financial assistance. There are a lot of lessons learned from development assistance.

Thank you for your attention!