Mobilizing Climate Finance: definitions and methods

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Outline

- How do we mobilize resources
- How do we deploy the resources
- Mobilization and leverage in the ALM world
- Challenges of mobilization and leverage in project finance
- Outlook of some climate change related investment markets
- Mobilization and leverage in the climate finance world: points for reflection
How do we mobilize resources

- Shareholder Capitalization
- Replenishment
- Concessional Trust Funds
- Capital Market
How do we invest the resources

- Approvals include loans, grants, equity investments, emergency operations, HIPC debt relief, loan reallocations and guarantee, Post Conflict Country Facility.
- In 2011 climate finance represented 20% of the total resources deployed.
How do we deploy the resources

... across a broad spectrum of financial products

<table>
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<th>Equity and quasi-equity investments</th>
<th>Agency lines to fund SMEs through financial intermediaries</th>
<th>Foreign and local currency loans</th>
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<td>Partial Risk Guarantees to cover risk of government failure</td>
<td>Market and commodity risk management products</td>
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<td>Partial Credit Guarantees to cover scheduled repayments of private loans or bonds</td>
<td>Trade finance lines of credit for commercial banks &amp; DFIs</td>
<td>Lines of credit to financial institutions</td>
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Mobilization and leverage in the ALM world

In 2011 AfDB’s resources deployed through private sector arm mobilized an additional investment of USD 8.9 billion

Leverage

Debt / (Paid-in capital + Reserves + Callable capital of non-borrowing countries rated A- and above)
Challenges to define mobilization and leverage in project finance
Challenges to define mobilization and leverage in project finance

Source: CPI, 2012
Development of Wind Energy Markets Project Sponsorship

- Sponsorship dominated by governments
- Support from development agencies like DANIDA, USAID, KfW

**Completed Projects**

- Public 79%
- Private 16%
- Public-Private 5%

**Ongoing and Planned Projects**

- Public 43%
- Private 14%
- Public-Private 43%

- Increased participation of private sector through PPP and IPP
- Catalytic role by the public sector
- Fully privately sponsored projects on the increase

Source: Compiled by AfDB staff in 2011
Development of Wind Energy Markets Funding Sources

- **Governments** - budget contributions, subsidies, taxation


- **Multilateral Development Banks** - Support policy and regulatory reforms, risk management instruments and accessing carbon finance.

- **Funds dedicated to the development of clean energy** - Global Environment Facility (GEF), Clean Investment Funds (CIF), Africa Green Fund (AGF), Sustainable Energy Fund for Africa (SEFA) - on the increase.

- **Private investment** - hugely driven by the expected return on investment. Increased over the years.
Mobilization and leverage of climate finance: points for reflection

- **Definition of Leverage:** in general is defined as the ratio of specific public climate finance to broader public and private financial flows.

- It is often used interchangeably with other terms such as co-financing, co-investment, parallel financing, mobilized financing, co-lending, etc.

- The AGF Report have identified different definitions of leverage for different climate finance instruments such as carbon finance, policy incentives (e.g., feed-in-tariffs), investment guarantees and public climate finance.

- **Need for clarity in terms of the conceptual framework**
Mobilization and leverage of climate finance: points for reflection

- AfDB’s use of mobilization and leverage of climate finance
- **Mobilization:** $ value
- **Leverage:** ratio
- AfDB’s resources vis-à-vis climate finance: ratio of climate finance/AfDB financing excluding project preparation grants or TA
- Private sector resources vis-à-vis AfDB’s resources: ratio of private sector financing/AfDB financing excluding project preparation grants or TA
Mobilization and leverage of climate finance: points for reflection

- Attribution
- Type of instruments
- Additionality

- Higher leverage from private sector: closely associated with use of risk-sharing instruments relevant for the different markets
Thank You!

Merci!

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