Private Finance for Green Investment: the role of the Public Sector

some lessons from WRI’s experience

Expert Meeting June 5-6, 2014

Shilpa Patel, Principal Advisor
AGENDA

- Introduction
- Analytical base
- Some findings
- Some case studies
WHAT IS WRI?

A global research organization that works closely with leaders to turn big ideas into action

MISSION: To move human society to live in ways that protect Earth’s environment and its capacity to provide for the needs and aspirations of current and future generations.
SIX GOALS, THREE CROSS-CUTS

- Climate
- Energy
- Food
- Forests
- Water
- Cities & Transport

- Governance
- Finance
- Business

WORLD RESOURCES INSTITUTE
FINANCE CENTER

WHAT

• Shift the world’s financial flows to support sustainable development
• Improve the public sector’s ability to attract the level of private investment at the scale required to close the climate finance gap

HOW

• Provide decision-making tools and research
• Facilitate public-private partnerships
• Convene public and private sector decision-makers
AGENDA

• Introduction
• Analytical base
• Some findings
• Some case studies
FINANCE CENTER WORK

Three main pillars

- Green Climate Fund
- Emerging Actors
- National Level Institutions

www.wri.org
GREEN CLIMATE FUND

Making the Green Climate Fund operational

- Informally advise co-chairs & influential Board members
- Mobilize external stakeholders to advance ambitious decisions
- In-depth analysis on key elements of the business model

Partners
CMIA
CPI
G2A2
ODI
Making China’s overseas investments sustainable

- Advise government on laws/regulations
- Support financial institutions & companies to strengthen their policies
- Risk assessment tools & evidence of best practice
- Convene government & other stakeholders

Partners
BNU
CCICED
BRAZIL INVESTMENTS

Making Brazil’s Domestic & Overseas Investments Sustainable

- Advise BNDES on sustainable investments
- Work with government, civil society & industry to strengthen BNDES’ policies
- Best practices on innovative financial instruments & access to information

Partners
BNDES
CSOs
NATIONAL LEVEL INSTITUTIONS

Making investments within developing countries sustainable

- Advise governments & private sector on making sustainable investments
- Partner with CSOs to ensure transparency & accountability
- Needs & capacity assessments
- Capacity & systems building support
- Stakeholder convening for shared learning

Partners
- UNEP
- UNDP
- ODI
AGENDA

• Introduction
• Analytical base
• Some findings
• Some case studies
MAINSTREAMING SUSTAINABILITY IN INVESTMENTS

• Integrate climate change considerations: government policies should be set up to screen investments upstream of development and implementation for risks arising from impacts of climate change and potential emissions

• On the mitigation side, these policies would integrate global environmental costs into economic analyses, allowing for a true accounting of costs and benefits of investment alternatives

• On the adaptation side, investments would be screened for the potential impacts of climate risks on activities and communities at the concept stage
### The Role of the Public Sector

<table>
<thead>
<tr>
<th>Public Support Mechanisms</th>
<th>Public Financing Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy and Overarching Support</strong></td>
<td><strong>Lending (Debt)</strong></td>
</tr>
<tr>
<td>Corrects systemic market failures to create a foundation for low-carbon investment</td>
<td>Most common source of finance for upfront and ongoing project costs</td>
</tr>
<tr>
<td><strong>Project-Level Assistance</strong></td>
<td><strong>Equity Investment</strong></td>
</tr>
<tr>
<td>Provide critical support to transition projects from concept to demonstration</td>
<td>Builds a project/company’s capital base, allowing it to grow and access other finance</td>
</tr>
<tr>
<td></td>
<td><strong>De-Risking Instruments</strong></td>
</tr>
<tr>
<td></td>
<td>Help projects/companies and their investors manage specific types of risk</td>
</tr>
</tbody>
</table>

Source: WRI

Markets with attractive risk-reward, liquidity, scale, and transparency

[World Resources Institute Logo]
### WHAT CAN GOVERNMENTS DO?

#### PUBLIC FINANCE TO ADDRESS RISKS

<table>
<thead>
<tr>
<th>POLITICAL AND MACROECONOMIC RISKS</th>
<th>INSTRUMENTS AND MECHANISMS</th>
<th>LOW-CARBON MARKET RISKS</th>
<th>INSTRUMENTS AND MECHANISMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Risks</td>
<td></td>
<td>Policy-Related Risks</td>
<td>Regulatory Risk Insurance and Guarantees</td>
</tr>
<tr>
<td>Political Violence/Instability</td>
<td>Political Risk Insurance and Guarantees</td>
<td>Policy (Legislative or Regulatory) Changes</td>
<td></td>
</tr>
<tr>
<td>Expropriation</td>
<td></td>
<td>Policy Inconsistency</td>
<td></td>
</tr>
<tr>
<td>Convertibility</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breach of Contract</td>
<td></td>
<td>Technology and Operational Risks</td>
<td></td>
</tr>
<tr>
<td>Macroeconomic Risks</td>
<td></td>
<td></td>
<td>Concessional and Flexible Finance</td>
</tr>
<tr>
<td>Commodity / Economic</td>
<td>Currency, Commodity, and Interest Rate Swaps and Facilities</td>
<td>Performance</td>
<td></td>
</tr>
<tr>
<td>Currency and Interest Rate Volatility</td>
<td>Local Currency Loans/Facilities and Guarantees</td>
<td>Obsolescence</td>
<td></td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td>Finance-Related</td>
<td>Lines of Credit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exit</td>
<td>Funds, Structured Products, and Aggregation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Operational</td>
<td>Insurance / Guarantees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Infrastructure</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** World Resources Institute
AGENDA

• Introduction
• Analytical base
• Some findings
• Some case studies
INSTITUTIONAL MANDATES IN THE US

Overseas Private Investment Corporation

- 2008: commitment to lower GHG emissions across its portfolio by 50% over 15 years

Export-Import Bank of the United States

- 2008: Congressional mandate to allocate 10% of annual financing to renewable energy and environmentally beneficial exports
ENERGY EFFICIENCY IN THAILAND

Energy conservation law, fund for EE, training to implement law

Implemented DSM plan for EE at energy utilities

Revolving fund to provide low-interest credit lines for banks to on-lend

Financial incentives & increased banks’ awareness of EE

20-year EE plan to reduce energy consumption by 20% by 2030

CTF investment support for EE by the private sector

Saved 15,700GWh by 2012
ENERGY EFFICIENCY IN MEXICO

Mexico Efficient Lighting and Appliance Project

Objective: Replace old inefficient appliances

Barriers:
• Household financing costs
• Risk perception and reticence of commercial banks
• Scale

Funded by IBRD and government of Mexico

Component 1: Financing to replace incandescent bulbs (IBs) with compact fluorescent lamps (CFLs) in 11 million low- to medium-income households; 45 million CFLs are expected to be distributed

Funded by NAFIN and the CTF (2a) and GEF (2b)

Component 2(a): Incentives to encourage replacement of old and inefficient appliances in households (including more than 1.5 million refrigerators and over 100,000 air conditioners) over a 4-year period through discount vouchers and concessional credit line

Component 2(b): Guarantee facility to cover customer defaults on credit line. Capitalized by SENER and GEF grant

Funded by SENER and the GEF

Component 3: Technical assistance and institutional strengthening to improve project sustainability and develop energy efficiency standards

Source: WRI based on project documents
SOLAR WATER HEATERS IN TUNISIA

1984: Solar thermal energy strategy
1990: Laws to promote energy conservation
1996: Project to install solar thermal panels
2005: Programme Solaire

- Financial sweeteners: capital cost subsidy, transitional interest rate subsidy
- Engage local financial institutions: commercial loans
- Involve utility: for loan repayment
- Capacity building, awareness raising
THANK YOU!

More information at
www.wri.org

Shilpa Patel
Principal Advisor, Finance Center
spatel@wri.org