Workstream 2 - Part A
Practical Methods for Assessing Private Climate Finance Flows

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Introduction - objectives

- Define and showcase practical methods that could be used for assessing private, climate-related financial flows to developing countries.
  1. Typology of interventions (direct)
  2. Key definitions and methodologies
  3. Costs and benefits of methodologies
  4. Methodologies tested against Nordic government case studies
  5. Findings and recommendations
- Project timeline from June 2013 to January 2014

Literature review - overview

- Reviewed over 50 reports and data sets
- Definitions (private climate finance, mobilise, leverage etc.)
- Instrument typology and definitions
- Example methodologies (key considerations, data sources and formulas)
- Resource requirements and constraints
- Inputs for report introduction / research framing and rationale for inquiry

Research scope – instrument types and data sets

IN SCOPE

- Financial instruments used in direct interventions including grants, debt, equity, guarantees and insurance. (see Table 1)
- Use of financial instruments by the public sector
- Bottom up 'retail level' - approaches for measuring mobilised private climate finance (using project / programmatic level data sources)

OUT OF SCOPE (to be covered by balance of OECD RC)

- Indirect policy based interventions
- Top down 'wholesale level' approaches for measuring mobilised private climate finance (using international data sources)

Methodologies - considerations

TO BE DETERMINED PRIOR TO CALCULATION OF MOBILISED PRIVATE INVESTMENT

1. **DEFINITION PRIVATE**: How do you determine that the finance mobilized is 'private'?
2. **DEFINITION CLIMATE**: What approaches or definitions do you use to determine climate relevance of an intervention?
3. **DEFINITION RECIPIENT**: How to define final recipient of funding – in terms of geographical location (developing country)?
4. **DEFINITION SOURCE**: How do you determine the source of finance (specific country government)?
5. **ADDITIONALITY**: How do you determine if public intervention (of any kind) was necessary in mobilizing private finance? What is the counterfactual without private intervention? This is not a question re. additionality in the context of ODA.
6. **ATTRIBUTION (double counting):** How can do you attribute mobilisation to specific actors in the case where multiple actors are involved in a given intervention?
7. **TIMING**: When (temporally) in the financing chain is mobilisation estimated and reported (project and financing stages, ex-ante or ex-post)?
8. **CURRENCY (and other considerations)**: How are different currencies treated?
9. **SUB-COMPONENTS**: Do you count all or only part of an intervention's value – and if part, how are sub-components valued which are climate relevant? (as it applies to projects within programmes, or sub-components of project)

* **PRIORITY** for Nordic governments

Methodologies - calculations (no info)

- Though a number of publications reference leverage ratios achieved by organisations…

- In cases where **there is no information on how these ratios are derived or calculated** – these references are excluded from our findings.
  - UN Secretary-General's High-level Advisory Group on Climate Change Financing (AGF) and Global Environment Facility (GEF)

- Several methodologies used to calculate leveraged or mobilised finance, **do not distinguish the private finance element**. As these approaches could include mobilised public finance – these references are excluded from our findings.
  - ADB, CTF, IFC, EBRD, OECD DAC, OPIC

Methodologies - calculations (co-financing)

- Findings thus far suggest that the majority of researchers and those providing transparent information on private finance leveraged or mobilised are referencing:

  CO-FINANCING

- ODI – review of UK, US, Germany and Japan private climate finance support
- WRI – review of MDB mobilizing private finance
- CPI – San Giorgio Group Case Studies
- IaDB – review of NDB activities
- GIZ – leverage potential of low carbon interventions
- UNEP – role of guarantees

Methodologies - considerations cont.

Consideration - category	No.	Example approaches identified
Calculation	9	UK, JBIC, IaDB, UNEP, OECD, GIZ, ODI, WRI, CPI
Source private fin	7	EBRD, CPI, OECD, WRI, ODI, Climate Strategies, Univ. Zurich
Source public fin	5	ODI, CPI, OECD, WRI and Univ. Zurich
Recipient	3	ODI, WRI, Univ. Zurich
Attribution	5	UK, ADB, OECD, ODI, WRI, Univ Zurich
Additionality	4	UK, AGF, ODI, Univ. Zurich, OECD
Timing	3	CDC, Univ. Zurich, CPI, OECD
Climate specific	8	EBRD, IDFC, Joint MDB, OECD-DAC, CPI, WRI, ODI, Univ. Zurich
Sub-components	2	IFC, OECD
Currency	3	Univ. Zurich, ODI, WRI

CALCULATION

Mobilised private co-financing =
Developed (or Nordic) country private finance identified * (Nordic government finance identified / Total finance identified, net of developed country private finance)

M = A*(B/C)

M = Mobilised private co-financing

A = Developed (or Nordic) country private finance identified (

B = Nordic government finance identified

C = Total finance identified, net of developed country private finance (see project or programme summary information)

Possible methodology (cont.)

- **Private finance** - Nordic or Developed Country – 2 options – Annex II
  - Corporate actors, institutional investors, project developers, households, commercial financial institutions, venture capital, private equity & infrastructure funds.
- **Recipient** - Location or Headquarters – 2 options – non- Annex I
- **Attribution** - Nordic bilateral or through multilateral – also sought to see if it was possible to identify Nordic government as 'lead actor'
- **Additionality** - Evidence required of public role in risk mitigation or lowering incremental costs
- **Climate specific** – MDB Joint Approaches for mitigation and adaptation
- Approaches also suggested for **Timing** (funding rounds) and **Currency**

Case studies illustrations (preliminary)

Cases	Nordic governments involved	Total finance identified (million USD)	Result from calculation option 1 – Developed private (million USD)	Result from calculation option 2 - Nordic private (million USD)
Addax Bioenergy (Sierra Leone)	Sweden, Finland, Denmark and Norway	268	14.29	0
Nordic Climate Facility (Int Portfolio)	Denmark, Finland, Iceland, Norway and Sweden	11,109	0.10 (or 100k)	0.10 (or 100k)
Nyamwambe run-of-river hydro (Uganda)	Sweden and Finland (Finnfund)	24	0.072 (or 72k)	0

(in report include intervention summaries, data for all participants, and details of calculations and assumptions)

Additional considerations

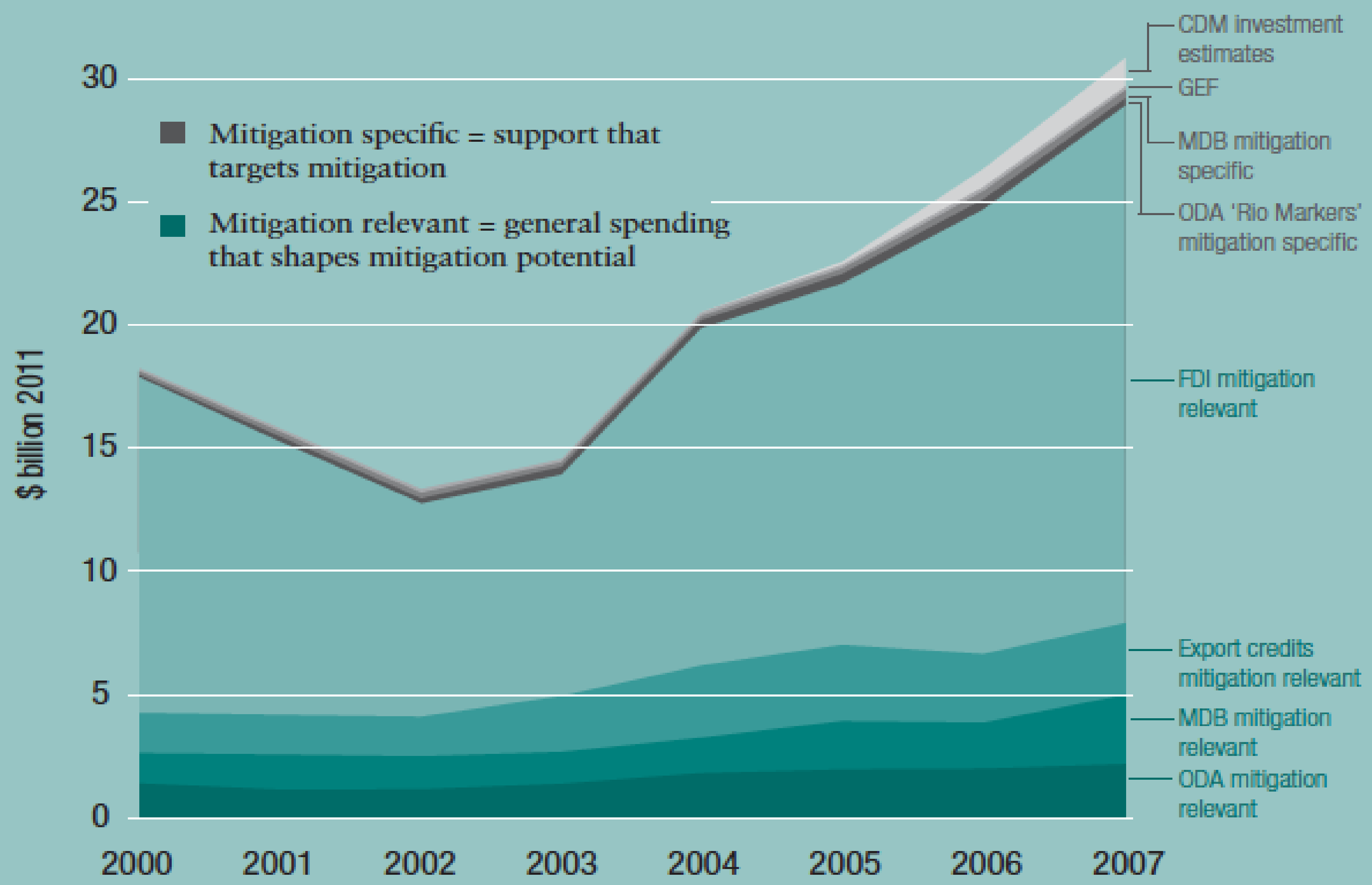
- What are the potential perverse incentives that could be created within projects and programmes based on the choices we make for tracking private finance and tracking mobilisation?

- All of the 'climate relevant' definitions exclude activities which are high emissions / high carbon or are mal-adaptive.
- What is the potential impact of only tracking climate positive 'climate relevant' activities in the context of lesson learning for mobilising private finance?

- How can we ensure transparency of actors and contributions across all 'climate relevant' finance in order to be able to track progress toward overall shift in finance from 'brown' to 'green'?

Figure 12: Estimated mitigation-relevant investment flows[28]

SOURCE: CORFEE-MORLOT ET AL. (2009)



Next steps

- Peer review completed end of October (OECD, WRI and CPI)
- Draft report – include NOAK comments
- Publication in December 2013
- Research by OECD and WRI under Workstream 2

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Example methodology

- For grants, debt, and equity – the total value of Nordic government finance (B) identified would be included in the calculation.
- For guarantees and insurance – the total value of Nordic government finance (B) would be the face value of the instrument being guaranteed or insured