

Mobilizing Private Sector Financing for Climate Change

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Vikram Widge
Head, Climate Finance and Policy
Climate Business Department

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Climate Business at IFC:

Solutions for climate smart sustainable development



ENERGY: Low carbon generation, energy efficiency, storage, smart grids, sustainable energy access



TRANSPORTATION: Energy efficient components, fuels and logistics



WATER: Capture, treatment, conservation, wastewater treatment, access



AIR & ENVIRONMENT: Carbon credits, trading and offsets



BUILDINGS: Low carbon strategy, energy efficiency, sustainable materials.



MANUFACTURING: Green chemicals, RE/EE supply chain, cleaner production.



AGRICULTURE & FORESTRY: Land mgmt, low carbon and adaptation strategies, biomass.



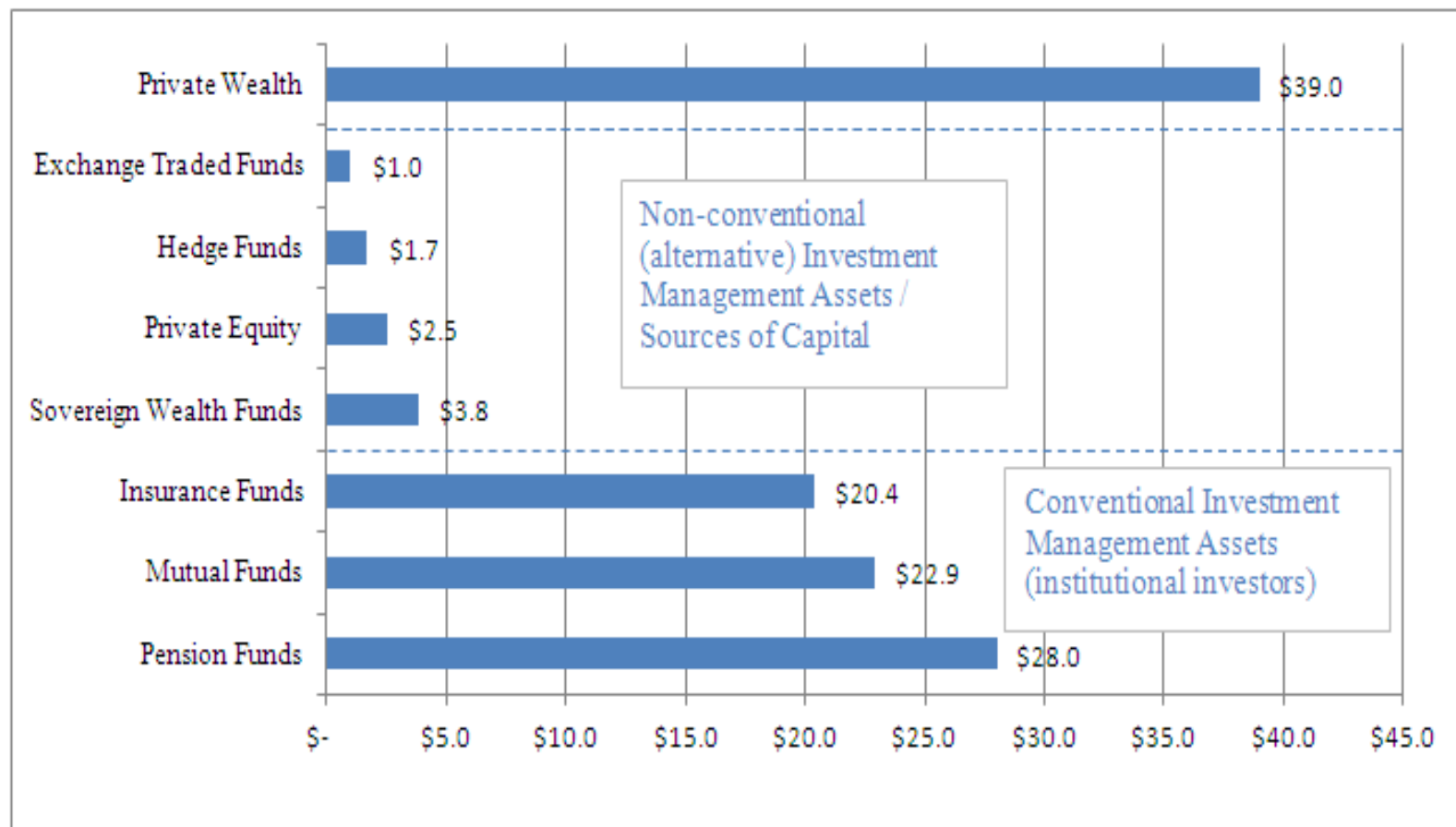
RECYCLING & WASTE: Recycling and waste treatment services

CBG coordinates IFC' climate strategy, offers market expertise & technical support, delivers innovative financing solutions, supports reporting & metrics, & provides policy expertise

IFC's climate business targets:
20% of IFC's long-term finance and 10% of trade finance by FY15.

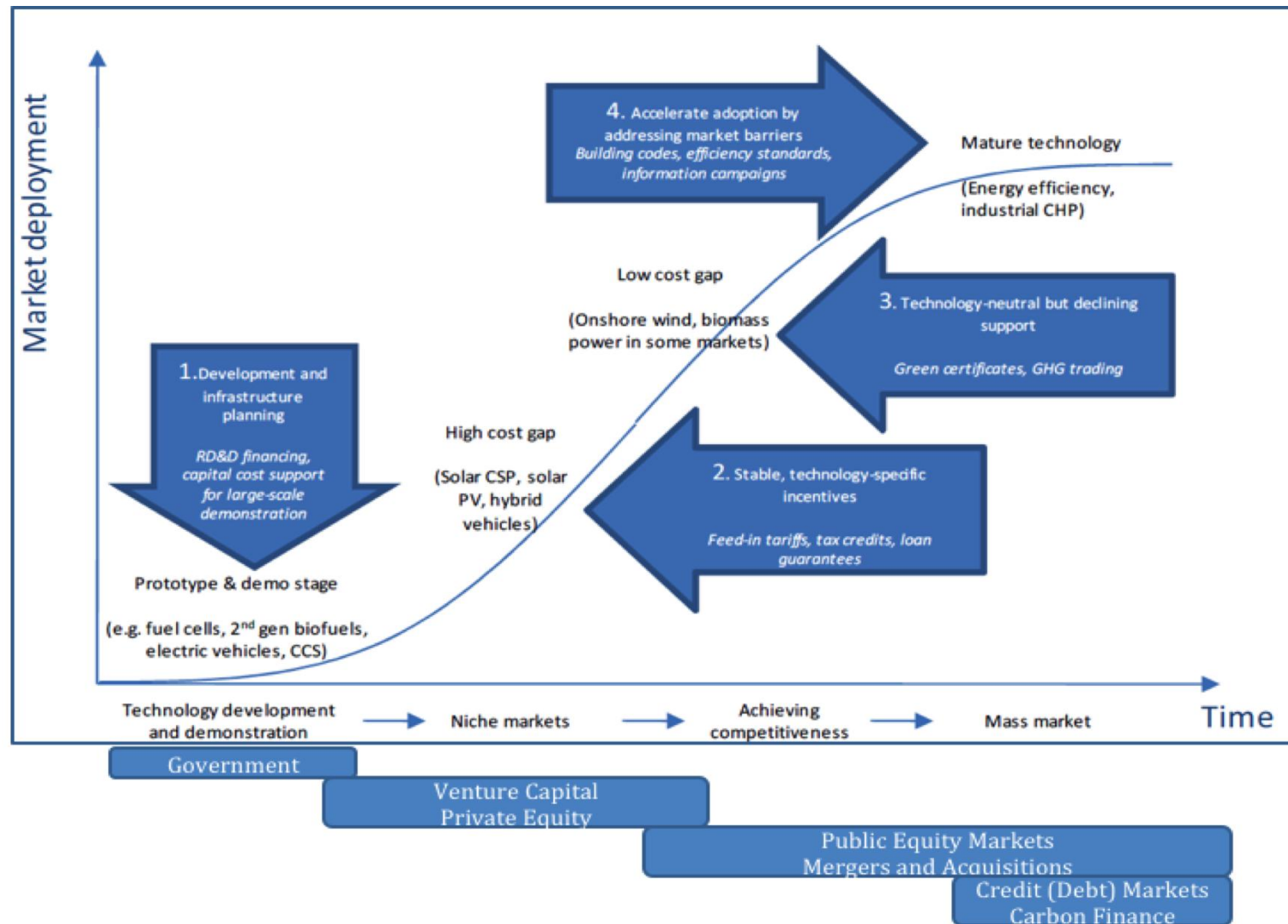
UNLOCKING THE ‘HOLY GRAIL’...

2009 GLOBAL FUND MANAGEMENT INDUSTRY: ASSETS UNDER MANAGEMENT (US\$TN)



Source: The Role of Pension Funds in Financing Green Growth Initiatives. (2011), Della Croce, R., Kaminker, C., Stewart, F., OECD

MAPPING SOURCES OF FINANCING TO SPECIFIC NEEDS



Source: Adapted from OECD (2011) and Bloomberg New Energy Finance (2011)

CAN THE GREEN CLIMATE FUND MAKE A DIFFERENCE....?

Shaping the Design of the Private Sector Facility

Factors to Consider

- Form and Focus
- Governance
- Who is “the Private Sector”?
- Financial Sector
- Carbon Markets

Form Should Follow Focus

- Design of the Green Climate Fund's Private Sector Facility should ensure it is fit for purpose
- To operate efficiently at scale and be transformational
 - Wholesale vs. Retail

Governance

- Prevent unintended barriers to private sector participation
 - Private sector's requirements need to be kept in mind when designing the policies, programming approaches, and procedures
 - Access modalities and approval processes that focus on country ownership or are subject to late stage Board approvals will preclude private sector participation at scale
- Transparency, Longevity, Clarity is key to ensure PREDICTABILITY
- Separate PSF board with private sector participation (Brookings)
- Outsource management of PSF to specialist fund manager under guidance of Board
 - At least consider outsourcing management of individual (wholesale) specialized products

Private Sector is NOT Homogenous

- Project sponsors are not the same, financial sector is not the same, even institutional investors are not one monolith
 - Requirements vary and a 'one size fits all' approach will not work
- Structure PSF to create series of specialized vehicles
 - Target different segments and risks to address the differing needs of private sector participants
- Consultations with different segments of private sector needed
 - Piggyback on the many existing and planned stakeholder consultation processes

Financial Sector

- Banks move markets: turning point towards wide scale adoption will come via the financial sector
 - Prioritize products that help unlock institutional investors; and unleash domestic capital markets, especially for energy efficiency
- Design wholesale products that the PSF could create specialized vehicles for e.g.
 - Dedicated monoline for mitigation bonds,
 - pooled loan guarantee mechanisms,
 - structured debt vehicles that leverage donor first loss to mobilize multiples of that from investors

Carbon Markets

- Markets are critical to getting us where we need to be
 - Even institutional investors have called for a **price on carbon**
- **Resurgence of markets likely** but in different format: regional, with different currencies, etc., but likely to be networked
 - World Bank's Partnership for Market Readiness is working with 15 countries to build market readiness capacity and to design and pilot new market instruments
- PSF could provide interim support for a value on carbon that investors can bank in the near/mid term
 - e.g. a **put option** or a more sophisticated **product that backstops future markets** and potentially generates income for the PSF

Sample PMR Country Activities

Private sector role in early influencing of design of schemes and eventual implementation

PMR Implementing Country Participant	Proposed PMR Activities for support
Brazil	Readiness capacity building (modeling, data management, reporting) and support to design and pilot a domestic ETS (if so chosen by the government)
Chile	MRV framework and a road map on a domestic ETS
China	Support design of national ETS ; study ETS for electricity sector and participation by state-owned enterprises
Colombia	Feasibility study on a market instrument for mitigation from the transport sector
Costa Rica	Domestic carbon market infrastructure (MRV, registry) of the following sectors: power generation (share of RE); agriculture; waste management; sustainable housing; and transport
India	A market based approach for off-grid RE applications
Indonesia	MRV, policy mapping, registry ; sector focuses: energy and industry sectors

Takeaways

- Selectivity will be important
- Need to consider instruments that target not just mitigation, but potentially adaptation as well
 - Subject to the need, role and ability of the private sector
- Most, if not all, of the financial instruments needed are already available
- Interim period between end of fast start financing and 2020 should be used effectively to design and demonstrate going to scale

POSSIBLE FUTURE DIRECTIONS FOR CARBON MARKETS...

Alternative Asset Types

- “Charismatic” Credits
- REDD+
- Renewable Energy Certificates (RECs)
- Energy Efficiency Certificates (White Certs)
- Sustainable Development Credits
- Adaptation Credits