Innovative ideas for sustainable energy investments. A worldwide perspective

EMPOWERING Project:
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An overview of Climate Policy Initiative

CPI’s analysts and advisors work to improve the most important energy and land use policies in the world, with a particular focus on finance. We support decision makers through in-depth analysis on what works and what does not.
Agenda

• What is the state of play?

• Unlocking innovation with the Lab programs

• Innovative instruments within the Lab
What is the state of play?
Total climate finance reached $391 bn in 2014.

Global climate finance increased by 18% in 2014, more money than ever.
The pathway to 2 degrees...

$16.5$ TRILLION

Investment needed 2015 – 2030 to limit temperature increase to $2^\circ$C**

Source: **IEA
Several barriers affect investors’ incentives and ability to invest in new technologies.

**Policy gaps**
- Non-existent or inadequate regulatory frameworks

**Knowledge gaps**
- Investment opportunities
- Incorporating climate change risks in investment or financing decision making

**Risk, viability & funding gaps**
- Perceived technology risks
- Return uncertainty
- Inadequate access to finance

Innovation necessary to go beyond BAU
Unlocking innovation with the Lab programs
Introduction to the Lab programs

The Global Lab seeks ideas to scale up finance for mitigation and adaptation in developing countries.

The India Lab seeks ideas to accelerate investment in green infrastructure throughout India.

The Fire Awards seek to accelerate powerful, early-stage pilots and businesses that can unlock finance for clean energy and green growth.
A public-private partnership to promote innovation

In addition, with support of:

The Lab
Bloomberg Philanthropies
The Rockefeller Foundation

Secretariat:
CLIMATE POLICY INITIATIVE
How the Lab process works

**Call for Ideas**
- **Phase 1**
  - **LAB MEMBERS**
    - Screen & select ideas for instrument design
  - **SECRETARIAT**
    - Set-up, outreach, and convene
  - **PROPOSENTS**
    - Submit ideas for review

**Instrument Design**
- **Phase 2**
  - **LAB COLLABORATIVE WORKING GROUPS**
    - Instrument Design including:
      - Instrument mechanics
      - Operational context
      - Assessment of barriers & innovation
      - Strategy for financial sustainability
  - **SECRETARIAT**
    - Convene, develop, analyze, and lead working groups
  - **PROPOSENTS**
    - Participate / inform working groups

**Implementation Design**
- **Phase 3**
  - **LAB COLLABORATIVE WORKING GROUPS**
    - Pilot Implementation and impact assessment including:
      - Pilot implementation pathway
      - In depth quantitative impact modelling
      - Target investor profiling & outreach support
  - **SECRETARIAT**
    - Convene, develop, analyze, and lead working groups
  - **PROPOSENTS / IMPLEMENTERS**
    - Participate / inform working groups

**Pilot Support**
- **Ongoing**
  - **LAB MEMBERS**
    - Endorse instruments for implementation
  - **IMPLEMENTERS**
    - Launch pilots
  - **SECRETARIAT**
    - Support implementation, monitor, and share lessons

**Timeline**
- **Sep – Dec**
- **Jan – Mar**
- **Apr – Jun**
- **Ongoing**
What type of ideas the Lab is looking for

**Actionable**
Identifies (1) the type of entity(ies) that could implement it, (2) the pathway towards implementation, including the timeframe, activities, and key milestones, and (3) possible challenges to implementation and related management strategies.

**Innovative**
Demonstrates the ability to address, directly or indirectly, barriers to private climate finance that (1) have not yet been addressed or (2) that will be addressed more effectively compared to other instruments in the market.

**Catalytic**
Demonstrates potential to (1) mobilize private climate capital within a sizeable market, (2) be scaled up or replicated in other contexts and, (3) achieve socioeconomic, development, and environmental impacts.

**Financially Sustainable**
Identifies (1) a strategy to phase out public financial support, thereby achieving market viability and (2) possible challenges to achieving its intended objectives and related management strategies.
Innovation in the Lab

• What are the existing barriers to private investment in the context within which the instrument operates?
• How does the instrument intend to overcome these barriers?
• Is it a new instrument or approach addressing a barrier or a gap that has not yet been addressed?
• Is it an existing instrument or approach addressing a barrier or a gap in a new context or relevant to a new class of private investors?
• Is it an existing instrument or approach addressing a barrier or a gap in an improved manner compared to comparable instruments?
Innovative instruments within the Lab
Energy Saving Insurance

Details

Type: Mitigation  
Sector: Energy Efficiency  
Stage: In Action  
Status: Endorsed  
Goal: To provide assurance to investors and their financiers that energy efficiency projects will generate their projected financial savings.

Geography: In pilot phase: Mexico; in the future: A proposed IDB Facility to replicate ESI in Latin American and Caribbean countries and replication in emerging countries in other regions (Asia, Africa)

Implementing Entities: Proponent: Danish Energy Agency; Implementing entity at regional level: Inter-American Development Bank (Latin America and Caribbean), and other regional development finance institutions (Asia, Africa). At national level: National Development Banks or similar champions/coordinates, e.g., FIRA/Mexico

Private Finance Target: Small and Medium Enterprises in selected sectors (including agro-processing industry, service/commercial sub-sectors, and light manufacturing firms)
Overview
Innovation

Investment barriers addressed:
• Inertia on the **demand side** for energy efficiency
• Lack of **availability** of long-term debt

By significantly reducing the **risk** for **equity provider** and **debt holder**
Where are we?

Status

• USD 47.5 million pilot currently in place in Mexico
• Received USD 21.7 million from the Green Climate Fund to scale in El Salvador

Next steps

• Additional pilots kicking off in Colombia, Peru and Brazil
• Replicate in additional sectors and regions
Energy Efficiency Enabling Initiative

Details

**Cycle:** 2015 - 2016  
**Type:** Mitigation  
**Sector:** Energy Efficiency  
**Stage:** Pilot Ready  
**Status:** Endorsed  
**Goal:** To mobilize private capital at scale for energy efficiency financing in emerging economies in both private and public sector investments by providing the much needed risk (equity) capital.  
**Geography:** Global, emerging markets; Latin America identified for a pilot phase  
**Implementing Entities:** Inter-American Development Bank’s Multilateral Investment Fund  
**Private Finance Target:** Private investors, including infrastructure investors and institutional investors
Overview

**E3I**

- **TECHNICAL ASSISTANCE**
  - dissemination of good practice
  - support to pipeline

- **EQUITY FUND**
  - development of the pipeline
  - public / private co-investment

- **PROJECT DE-RISKING FACILITY**
  - provision of guarantees & de-risking
  - mobilization of lenders

**ENERGY EFFICIENCY PROJECTS**
(If needed, structured using investment vehicles, ex: SPV)

- Energy Savings
- Possibly Co-invest
- Fees (% Savings)

**END USERS**
Innovation

Investment barrier addressed:
• Limited availability of equity for energy efficiency

By de-risking investment at fund and project level

![Graph showing deviation from expected returns with risk coverage options]
Where are we?

Status

• **Fund manager** selected
• Initial steps to launching the **first pilot**
• Fund manager prepared a **private placement memorandum (PPM)** for the investors
• **submission a proposal for a USD 5 million** in anchor funding

Next steps

• 1Q 2017 to 3Q 2018: Capitalization
• 2Q 2017 First Disbursement
### Energy Efficiency Enabling Initiative
- Proposed by the Inter-American Development Bank
- Will mobilize equity finance and deploy technical assistance for energy efficiency in developing countries.
- USD 5 million in seed funding from IDB

### Climate Investor One (*CDFF*)
- FMO, the Netherland Development Finance Company & Climate Fund Managers
- USD 400 million in funding commitments
- Large-scale solar-hydro projects set for development in Rwanda & Zambia

### Energy Savings Insurance
- Inter-American Development Bank with support from Danish government
- USD 47.5 million pilot launched in Mexico;
- USD 21.7 million from the Green Climate Fund for El Salvador expansion

### Long-term Foreign Exchange Risk Management
- EUR 30 million commitment from German government to TCX for hedging instruments in Sub-Saharan Africa
- USD 52 million in climate-related hedging transactions since December 2015
Conclusions

• What are the financing needs for Regions?

• Are public sources mobilizing private investment?

• What lessons can be learned from existing investments and how can continued learning be ensured?

• Can the Lab approach or similar approaches work?
Thank you for your attention!

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