



How to mobilize private sector investment into low emission infrastructure

With an example of the Green Climate Fund as a catalyst

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Carmen Arguello (GCF)

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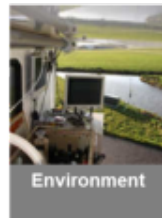
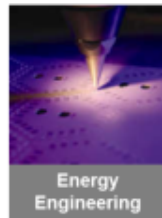
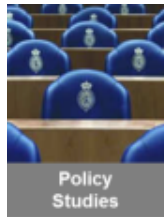
Punta Cana, October 2015

Introduction ECN

ECN Policy Studies

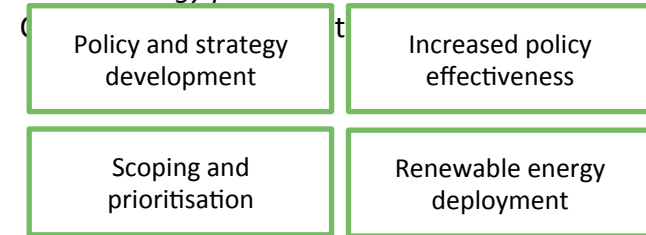
Energy research Centre of the Netherlands since 1955

- Research NGO – not for profit
- Over 500 staff in seven research areas
- 60 staff in Policy Studies unit
- Main think tank for Dutch government on energy and climate.



Global Sustainability group

Within ECN Policy Studies 15 staff work on issues of ‘global sustainability’ with the mission to help *mobilizing public and private investment through low carbon energy policies and measures.*



Clients include: European Commission, UNFCCC, UNEP, UNDP, CDKN, DFID, GIZ, BMUB, World Bank and the IPCC

Experience working in: a diverse group of countries including Indonesia, Pakistan, Mongolia, Thailand, Ghana, Kenya, South Africa, Kuwait, Argentina, Brazil, Mexico, Colombia, etc.

Introduction to the training session



- Training objectives
 - Understand role of private sector in financing low emission infrastructure and financial instruments for mobilizing such participation
 - Understand the role that the Green Climate Fund (GCF) can play to catalyse this, and how
- Overview of training session: 3 parts
 - PART 1: Why attract private investments to public infrastructure (ECN)
 - PART 2: the Green Climate Fund as a case study for this (Green Climate Fund, ECN)

Introduction to the training session



- **Target audience**
 - LEDS generalist that needs to interact with finance experts and facilitate proposal development
- **At the end of this training participants will be able to**
 - Identify, at a high level, the potential role the private sector can play in low-carbon infrastructure and why
 - Analyse what kind of instruments are best suited to support private sector investment in such infrastructure
 - What is needed to develop a proposal for the Green Climate Fund
- **Presenters**
 - Donald Pols, ECN
 - James Falzon, ECN
 - Carmen Arguello, Green Climate Fund
 - Dieu Trinh, Ministry of Planning and Investment, Vietnam

Part 1: The private sector and low-emission infrastructure: What, why, how? Theoretical perspective

James Falzon, ECN

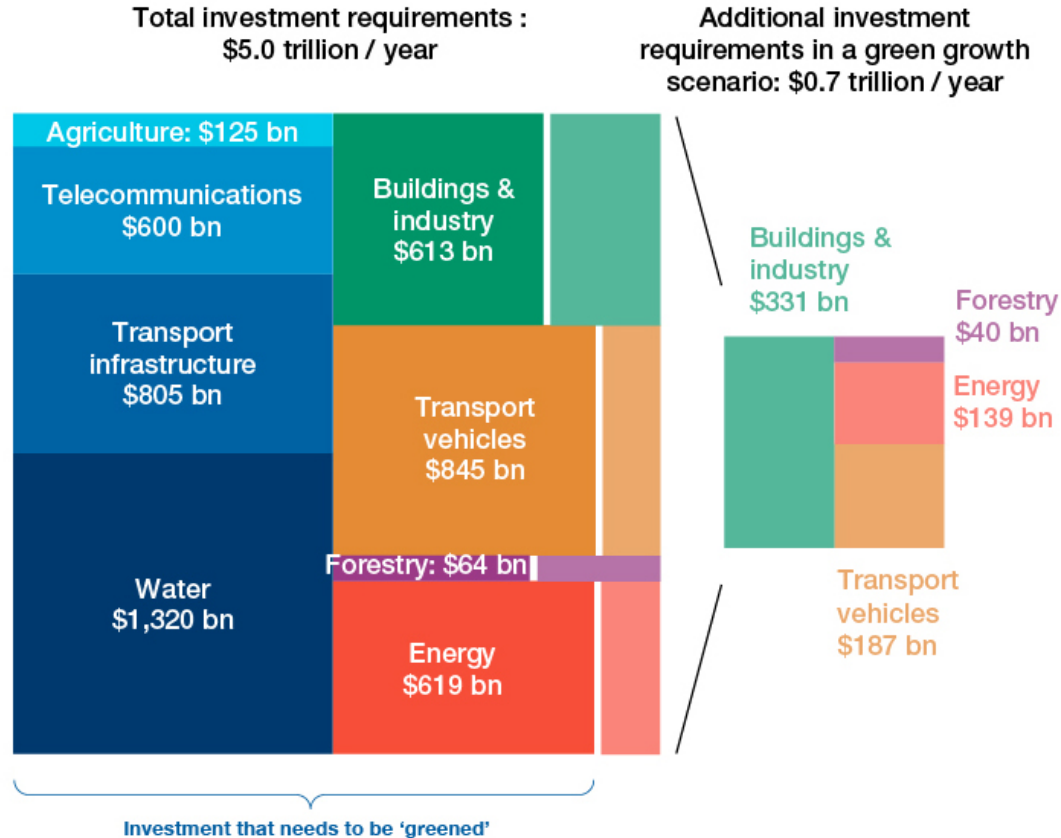


Mitigation finance framework

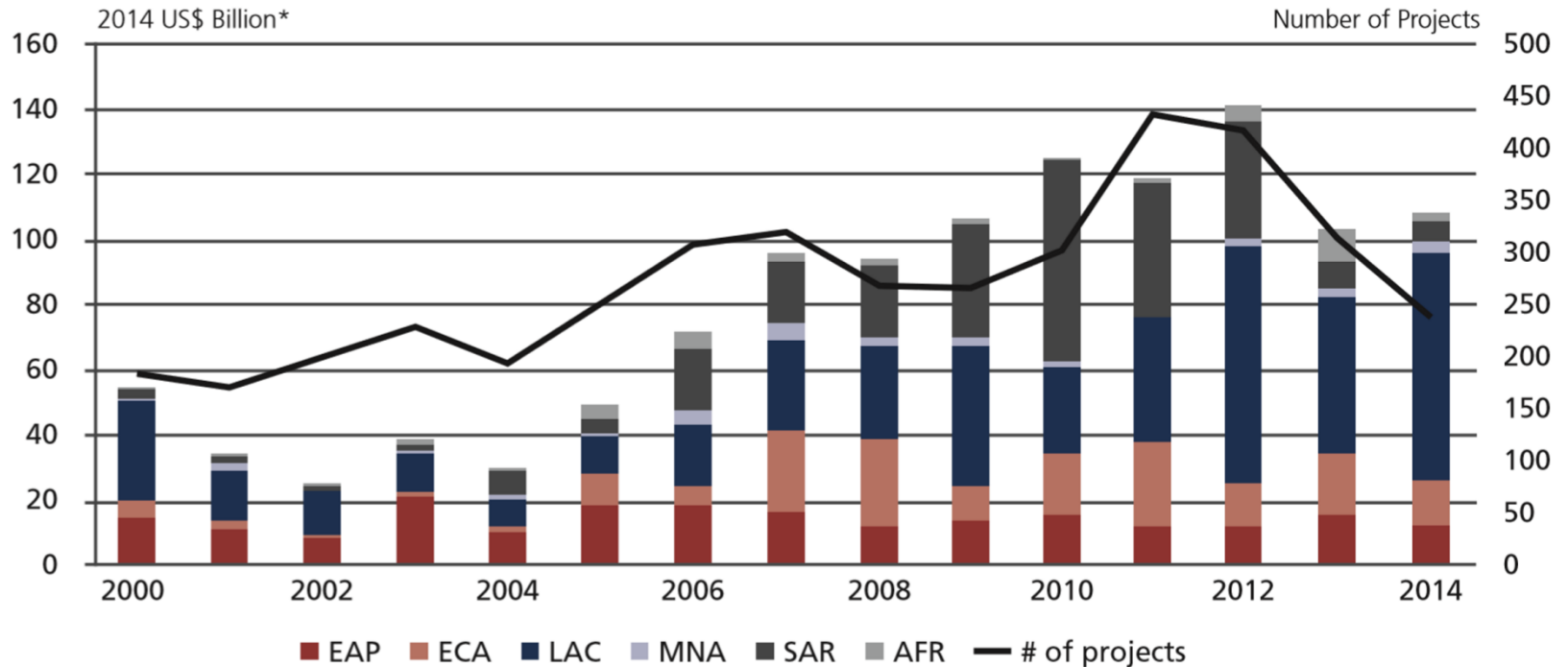
- In response to a need from practitioners to be able to better frame climate finance, in partnership with GIZ, ECN developed a framework to better understand climate finance flows.
- Objective of the framework is to highlight fundamentals in climate instrument selection.
- This is the basis for this part of the training - GIZ and ECN exploring how best to share insights.

LEDS financing challenge

An increase in investments is needed across different sectors, actions



Private involvement in infrastructure: Total investment in energy, transport, and water by region



Source: World Bank and PPIAF, PPI Project Database.

*Adjusted by US CPI

Why the private sector?



Advantages and disadvantages of Public Private Partnership projects

Advantages

- Reduction on public treasury
- Value for money
 - Risk transfer
 - Output based specification
 - Performance incentives
 - Private management skills
 - Competition
 - Innovation
- Foreign Direct Investment
- Time to delivery savings
- Improved response to market
- Improved costing (sunk costs)

Disadvantages

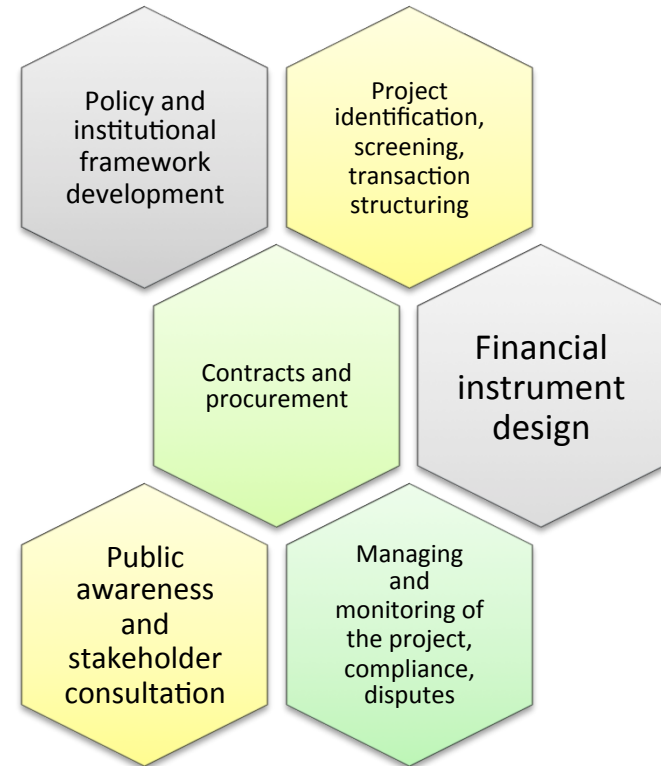
- Higher transaction costs
- Higher capital costs
- Risk transfer
- Insecurities
- Inefficiencies
- Culture gap
- Short term rigidities
- Public sector staff concern

What is needed to get private sector involved in infrastructure?

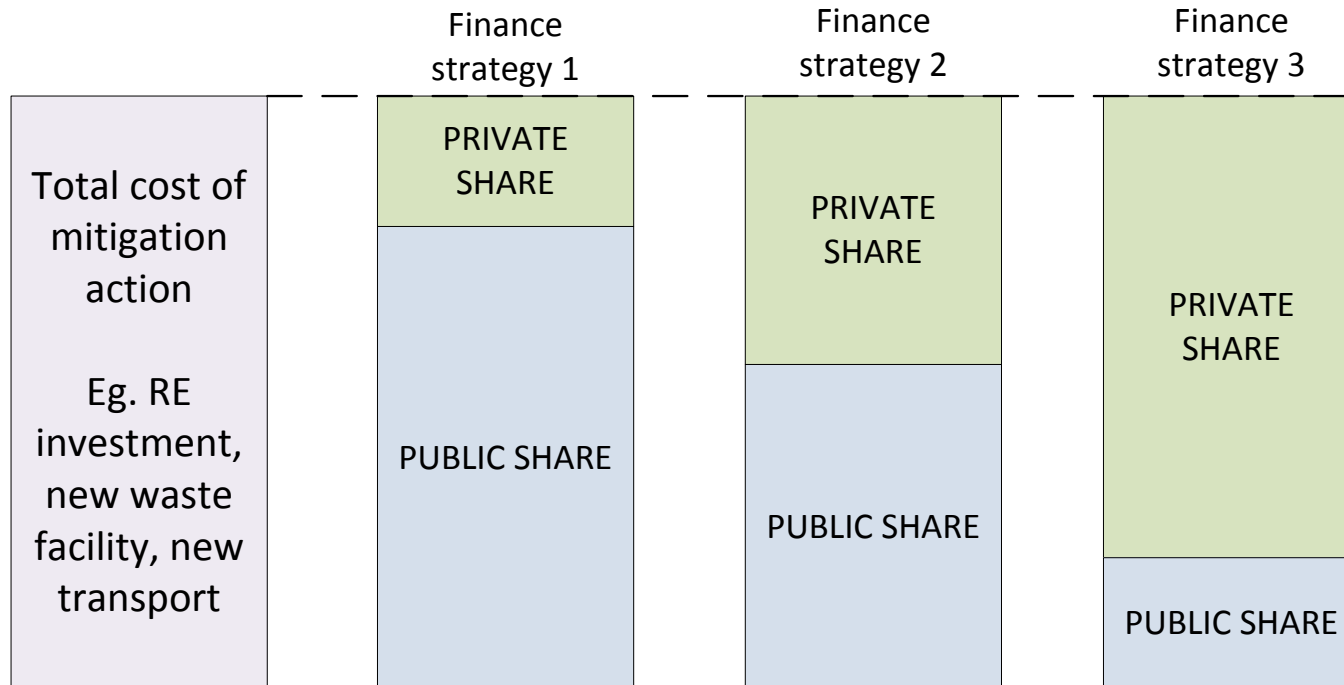
Enabling conditions

- Customs (import and export)
- Ease of starting, operating, closing a business, including licensing and registration
- Labour market (skills & flexibility)
- Property entitlements, incl. land
- Taxes
- Contract set-up and enforcement
- Legal institutions, rule of law
- Education policies, human & institutional capacities (overlap with business capacity)
- Macroeconomic policy framework, political stability
- Financial market, access to finance
- Infrastructure (energy, transport)
- Cluster policies
- Targeted research & development policies
- International cooperation on low-carbon technology (including tech. transfer and trade policy)
- Value chain promotion (including standards and codes)

Activities



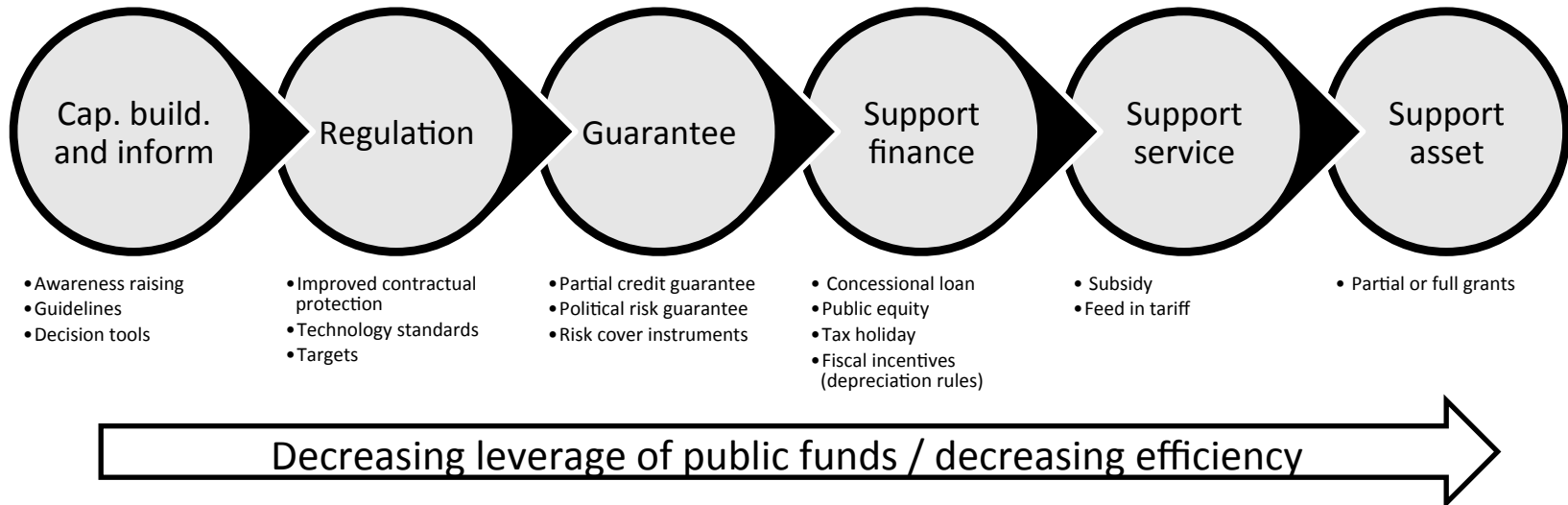
How to maximize the advantage of reducing public budget burden through financial instrument design?



How to maximize the advantage of reducing public budget burden through financial instrument design?

- Highly stylised spectrum of policies/instruments for catalysing private sector investment

Figure: adapted from Lutken 2014

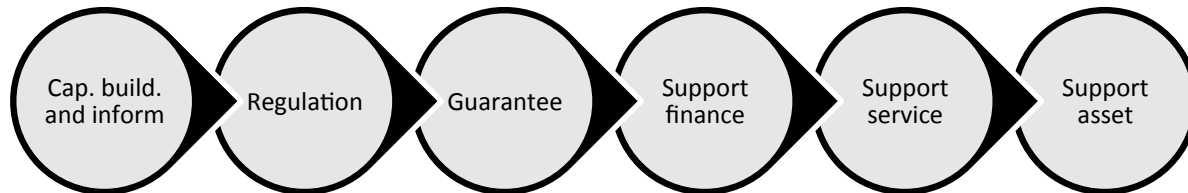


- In reality the 'efficiency' of any approach is context specific
- Should also consider effectiveness and feasibility (GCF investment criteria)

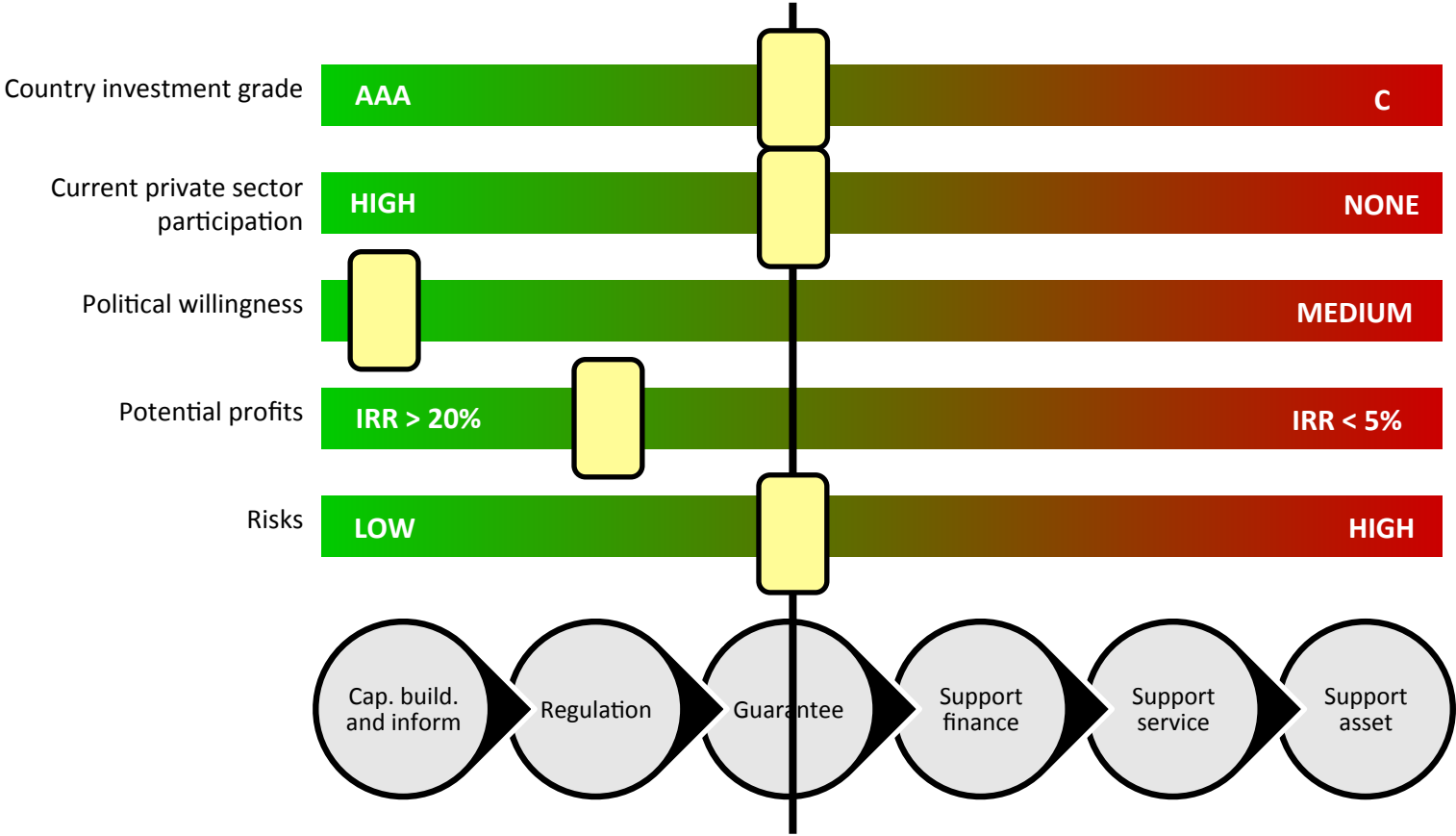
Private sector and LEDS



Appropriate instrument selection for a specific context: Feasibility and effectiveness



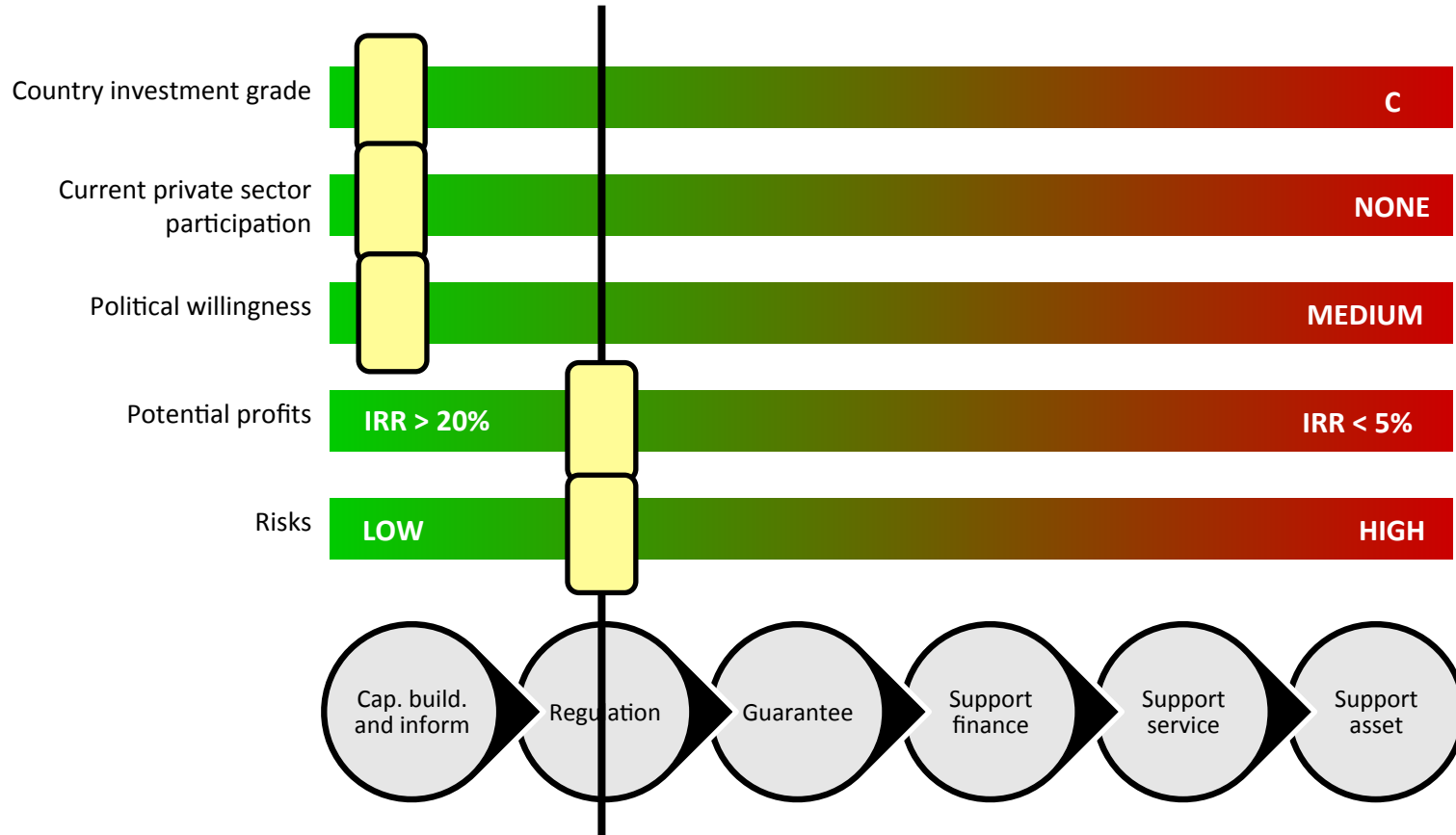
Example of effectiveness: Geothermal in Kenya



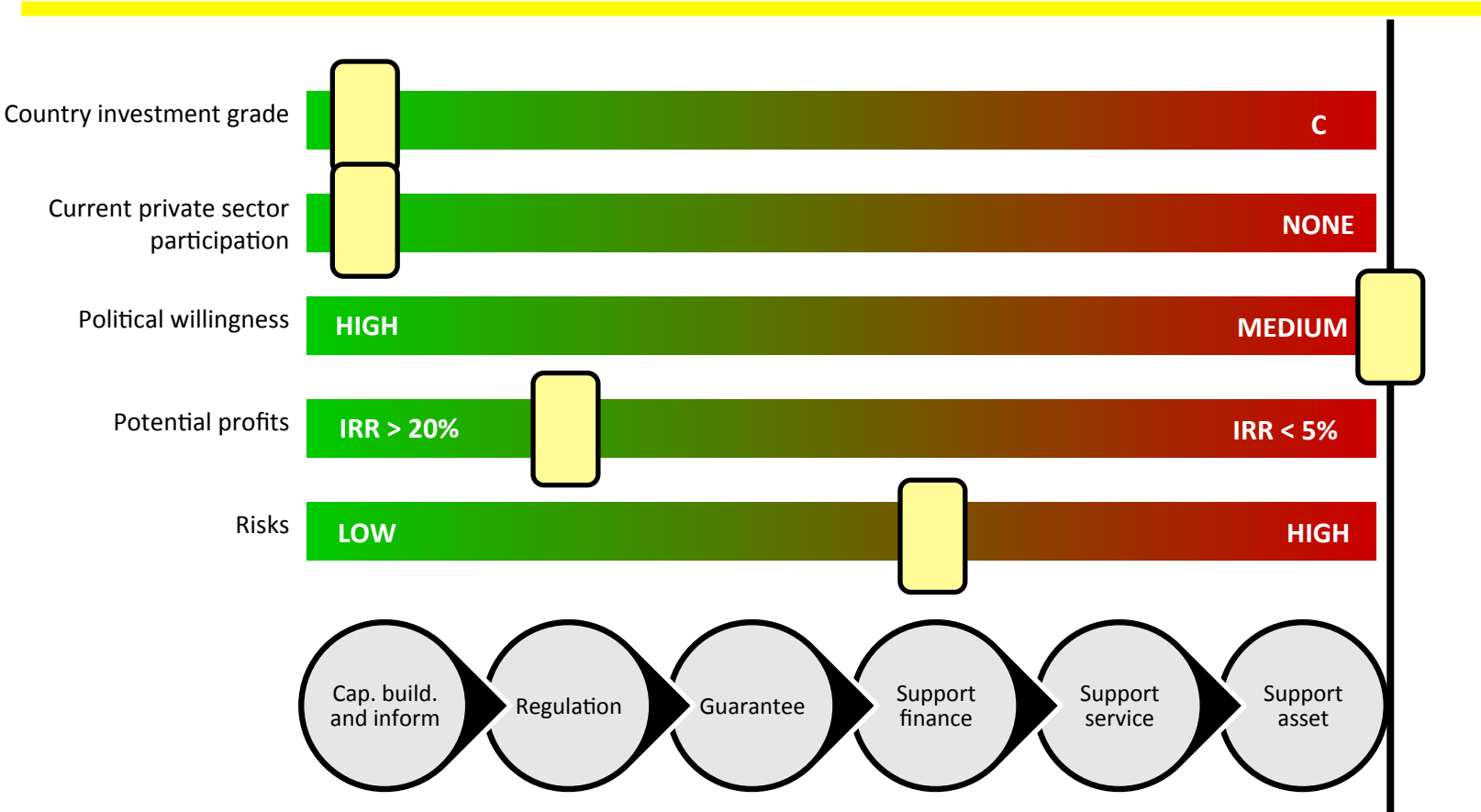
Private sector and LEDS



Example of feasibility: UK Onshore Wind.... Before



Example of feasibility: UK Onshore Wind... After



Exercise instructions

- Use the diagram as a basis for discussion of the range of instruments to support private investment for low-emission infrastructure in a specific sector in a country of your choice
- Note down the different challenges / uncertainties you face in doing so
 - For example, to understand what instruments are on the table, you might need expert advice
 - Where are the biggest uncertainties?
 - What is good practice?
- Time available – 15 minutes

Private investment in infrastructure: Shifting investment patterns

- Private investments illustrated earlier are not necessarily low-carbon.
- How can we shift patterns of investment?
- Lots of different financing sources!
- GCF can act as a catalyst:
 - Shifting existing investment patterns towards low-emission, climate resilient investments, by making these investments more attractive than other kinds of investments.
 - Increasing the pool of capital available such that low-emission, climate resilient projects, which often require more up-front capital, can be fully rolled-out (closing the gap)
- In order to do so, different financial instruments will be utilized.



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Survey of accredited entities

- In response to demand from LEDS-GP members, the Finance Working Group / ECN studied GCF documentation, and undertook interviews with accredited entities.
- Provided insights on:
 - GCF process
 - Instruments
 - Short and long term priorities of GCF (from their understanding)
 - Pipeline development
- Here we share insights on instruments.



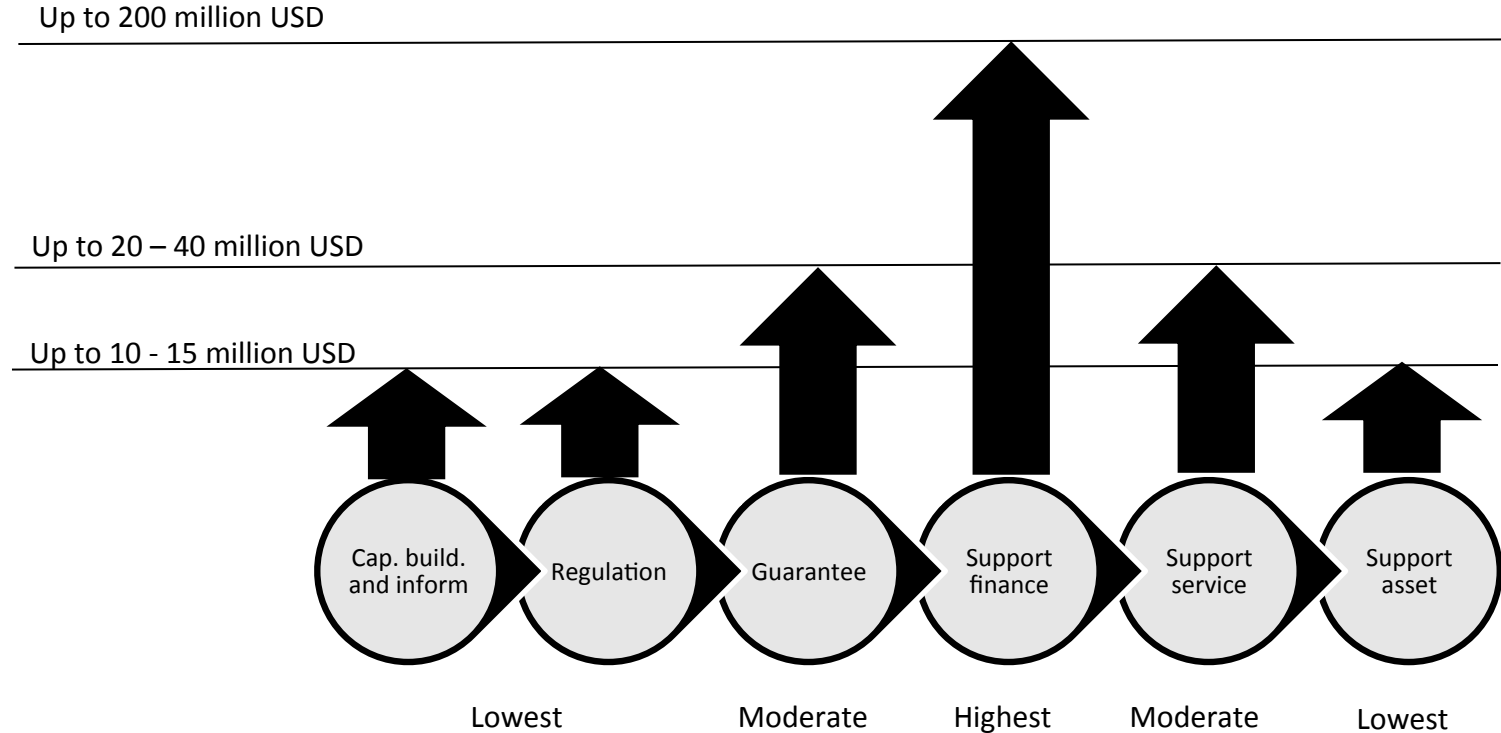
How is the finance structured?

Instruments of the GCF to leverage private investment



- Short term
 - Grants (mitigation and adaptation)
 - Concessional loans
 - Green project bond guarantees
 - Equity Instruments
 - Results based finance
- Medium and long term
 - Green bond direct issues
 - De-risk instruments
 - Commercial paper (promissory note with a fixed maturity, usually less than one year)
 - Syndications and club deals (group of lenders to one single borrower)
 - Private placement programs (intermediate step between bonds / commercial paper (securities) and syndicated loans (loan instrument))

Indicative GCF priorities on instruments and implications for size of request



How could the finance structured?

Example 1: Blended concessional finance

Instrument	Tranche	Source	Amount	Share
Equity	Equity	Project promoter and Funds	minimum	30%
Sub Debt	Sub Debt	Subordinated Debt (Various financial institutions - MDB / DFIs loan)	Up to	10%
Senior Debt	DFI Tranche	DFIs/MDBs Loan (such as ADB, AfDB, EIB, WB etc,..)	Up to	40 %
		Concessional Funding (such As CIF and GCF)	Up to	5 %
		DFIs Syndicated Loan	Up to	20%
	Commercial Tranche	Commercial Bank Loan	Up to	20%

How could the finance structured?

Example 2: Fund for innovative energy companies in East Africa

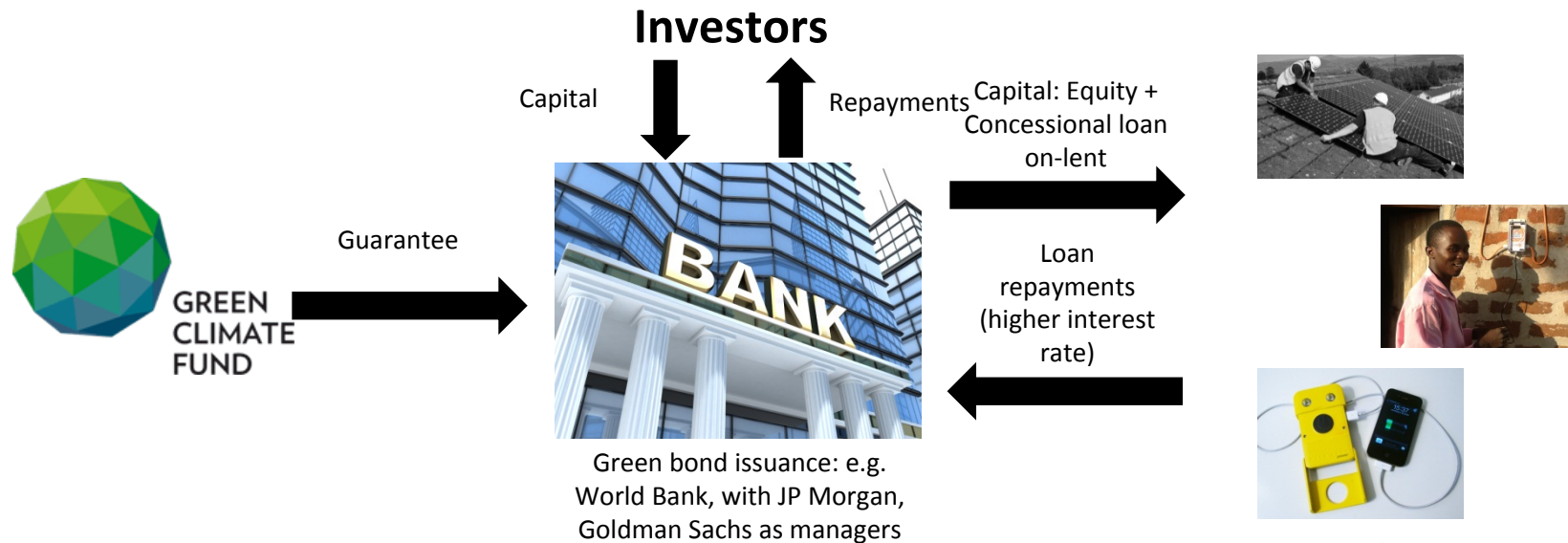
- Bank as an accredited entity and lead organiser
- Would like to set up fund for on-lending to innovative energy companies in East Africa
- Approximate 50 million USD application as pilot phase from the GCF
- Will on-lend to private companies



How could the finance structured?

Example 3: Green bonds

- GCF initially will not be able to issue green bonds itself
- Could guarantee intermediaries issuance
- Long-term, it may be possible for GCF to issue its own bonds



Key messages

- Investment challenge for LEDS is enormous
- Private sector can play a role in bridging the gap
- There are many things that need to be addressed to attract private investment
- Focusing on maximizing leverage and efficiency, a variety of instruments can be employed, and context, effectiveness and feasibility are important constraints
- The GCF can help catalyze these efforts by supporting specific financial instruments
- From a volume perspective, most of the finance will be channeled through concessional finance
 - But other instruments are on the table – just need to remember to match your project funding request with what the fund is likely consider to reasonable!

Thank you for your attention.
Questions?

Part 2: GCF deep dive

Carmen Arguello (GCF)

Country experience – Vietnam



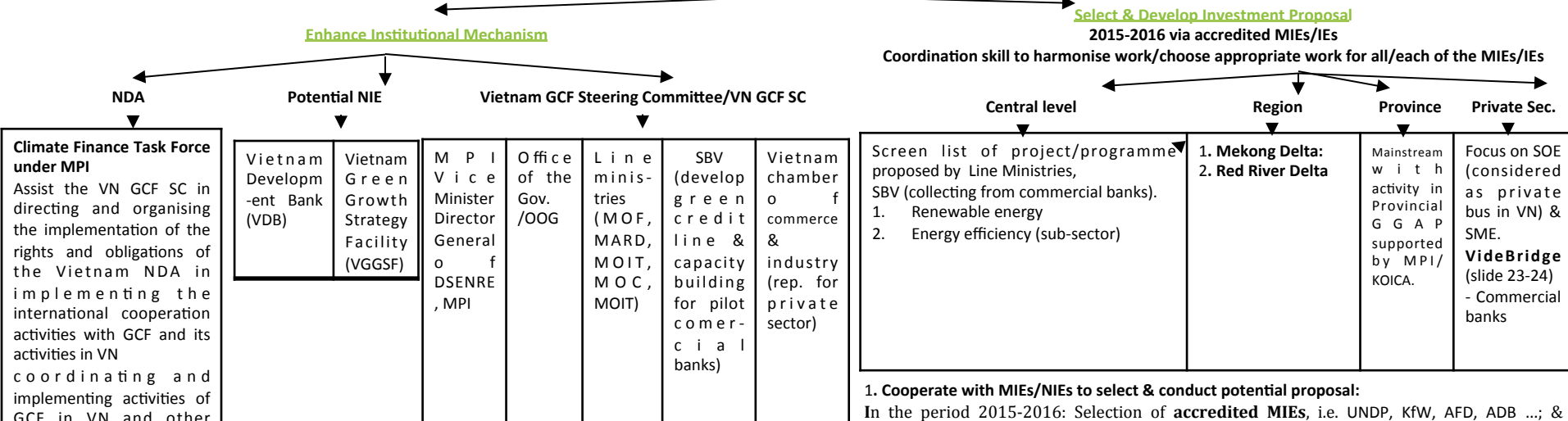
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Getting to a bankable proposal

What kind of actions are needed? Vietnam experience



Strategic Plan to Access GCF



1. **Cooperate with MIEs/NIEs to select & conduct potential proposal:**
In the period 2015-2016: Selection of **accredited MIEs**, i.e. UNDP, KfW, AFD, ADB ...; & **potential MIEs interested in GCF**, i.e. GIZ, KOICA,...

- Fit with the sectors of priority of MIEs;
 - Fit with the procedures for appraising, bidding, Monitoring and Evaluation (M&E);
 - Can act as Co-sponsor.
- In the period after 2016: Can select MIEs or NIEs

- 2. Procedure:**
- UNDP, KfW, AFD, ADB (VGGSF, VDB and other after 2015) to screen and then forward to MPI;
- Some important criteria for selection:*
- Both adaption and mitigation;*
- Involvement of private sector;*
- High socio-economic impact: consider beneficiaries, i.e. the poor (projects supporting agricultural production, agricultural product processing...), gender equality issues;*
- In line with priorities/requirements of GCF, National Strategy & MIEs/IEs.*

- MPI and Vietnam GCF Steering Committee to screen;
- MPI reports to Prime Minister for approval;
- MPI informs UNDP, KfW, AFD, ADB for improvement of the proposals

3. Communication with GCF:
Inform to GCF about the proposal: both MIEs/IEs (UNDP, KfW, AFD, ADB) & MPI;
Strategic communication plan with GCF.

Take into consideration:

GCF Readiness Programme (Standard Package) -> prepare 'readiness proposal'.
TA support from DPs (UNDP, GIZ, KfW, KOICA, etc)

1. Conduct NIEs (line ministries, SBV, VDB, commercial banks, environmental/CC/GG funds) & NDA assessment
-> select potential NIEs & design capacity building for NDA & potential NIEs & GCF focal point from line ministries.
2. Identify key stakeholders from VN & organise consultation workshop with all key stakeholders from Gov & MIEs/IEs
3. Design a special mechanism for GCF in Vietnam to accelerate timeline for the national internal process & gain higher effectiveness of the proposed projects/programmes. (i.e. in VN, MPI/NDA has carefully consider how to make GCF procedures takes less time than ODA project, GEF procedure.

What kind of actions are needed? Vietnam experience

Challenges

- Funds mobilisation
- Funding and Disbursement Management
- Monitoring and Reporting
- **Transparent, valid, simple and effective** procedures
- **Promoting participation from private sector (which currently has limited capacity, awareness)**
- A transitional phase is normally experienced before being officially implemented.
- Specific challenge to convince private sector (especially business enterprise): many procedures/unwieldy mechanism + long time to wait for decision of investment; possibility of not being chosen for investment; while business enterprise (to attract GCF, this should be top medium-sized enterprise in VN) always looks for quick process, also has the ability to borrow from other funding despite of higher interest.

Closing discussion

Donald Pols, ECN

Plenary discussion

- What are your experiences in developing a proposal?
- What are the most important activities?
- What are the biggest bottlenecks?
- What are good practices that you can shared with colleagues?
- Where do you think private sector could come in?
- What kind of support would be most useful?

Support for your efforts to mobilize private investment, and accessing the GCF

- Existing GCF readiness support:
 - Strengthening NDA and focal point
 - Strategic framework (country programme for engagement, and strategic investment priorities)
 - Accreditation of implementing entities
 - Pipeline development
 - Information and experience sharing
- LEADS-GP FWG is considering to develop:
 - Knowledge products (guides, meta-guides [i.e. overview of available guides])
 - Ad-hoc small-scale technical assistance across different activities needed to prepare a proposal (already available)
 - Matchmaking with accredited entities, GCF, NDAs
 - Support to look for funding for readiness and proposal development

Thank you for your attention

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