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Catalysing transformation: some examples of mobilising private finance in renewables

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Key barriers to renewable deployment: high upfront costs of capital and long-term price risks

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- In the UK, we need widespread deployment of clean energy to meet our legally binding commitment of 80% reduction in emissions by 2050
- 350% growth in electricity production by renewables from 2003-2012. Last year, opened London Array: the world's largest operational offshore wind farm (630MW)
- Need to reform the electricity market. Our Electricity Market Reform (EMR) programme needs to attract over £100bn of investment in the UK power sector over the next 6 years if we are to decarbonise the sector and ensure security of supply
- Requires series of measures to de-risk investment – including Contracts for Difference (CfDs) - which provides certainty and stability on revenues: generators will receive in effect a fixed price for the low carbon electricity they produce known as the 'strike price'

UK's International Climate Fund

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- **£3.87 billion** out to 2011-2016
- Aims to split evenly between adaptation and mitigation
- Catalysing **transformational change**
- Priorities:
  - Demonstrate that building low carbon, climate resilient growth at scale is feasible and desirable
  - Support the international climate negotiations, particularly through supporting adaptation in poor countries and building an effective international architecture
  - **Drive innovation and new ideas for action, and create new partnerships with the private sector to support low carbon climate resilient growth**

Catalysing transformation: what does it mean?

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Scale: national, sector, regional or economy wide programmes that create critical mass.

Replicable: programmes that others can and do copy

Innovative: demonstrate and pilot new ways of achieving a shift to low carbon, climate resilient development

Leverage: other donors / domestic flows / private capital; not crowding out

Clean Technology Fund – an example of scale

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- 15 country & 1 regional Investment Plans, & a Dedicated Private Sector Programme. Total donor pledges of $5.5bn. First 28 approved projects as of June 2013
- 2,626 MW of installed capacity from **renewable energy** have been achieved by first 28 projects, which accounts for 28% of targets (**9,014 MW**) indicated by all CTF projects
- Over $3.5 billion co-financing from various sources have actually been leveraged, which is 21% of the total **co-financing** expected from all CTF projects **($17.1 billion**). Of the realised leveraged finance, 44% came from the implementing MDBs and 33% from the private sector
- Example: when **Morocco** presented their CTF Investment Plan, the national installed capacity of wind power was low; now $125m of CTF finance has been approved (leveraging an additional $2,709.5m) to finance the installation of 1,070MW of wind power

Get Fit Uganda – an example of replicable

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Multi-donor project (UK contribution of £34.6 million), providing **top up grant to renewables Feed in Tariff**, support to regulator, use of World Bank Guarantees

1-20 MW plants (of e.g. bagasse, hydro, biogas), totalling at least 125 MW of additional installed capacity in at least 15 projects

Aims

- Demonstrate to private sector developers that investment in renewable energy in countries such as Uganda is financially attractive
- Demonstrate to other governments especially in the region that incentivising investment in renewable energy can mobilise private sector investment

Green Africa Power – an example of <u>innovation</u>

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New Private Infrastructure Development Group (PIDG) facility

Aim: to demonstrate the commercial and technical feasibility of renewable energy projects in Africa with £98 million of UK funding

Expected results:

- 5 – 200MW projects
- Spread of renewable technologies
- Leverage 2x private sector finance
- 270MW of renewable energy

Green Africa Power

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Barrier	GAP solution
High upfront costs	Quasi-equity loan: which may earn a basic coupon and a negotiated top up payable after a threshold level of equity returns have been paid
Specific risks	Contingent Line of Credit: drawn down in case of delays or cost over-runs in construction
Lack of cost reflective tariffs	Policy dialogue: support to encourage host countries to move towards cost-reflective tariffs

Climate Public Private Partnership 'CP3' – an example of leverage

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Two new **commercially run private equity funds** that will make investments in to climate friendly sub-funds and projects in developing countries

Aims

- Drive new types of private money into climate investments e.g. pension funds, SWFs
- Speed up the development of private equity market in climate change/climate friendly projects
- Show climate investments are profitable by building network of sub-funds with good investment track records

Climate Public Private Partnership 'CP3'

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UK investment of £110 million + up to £19 technical assistance

IFC Catalyst Fund	CP3 Asia
IFC AMC as fund managers	Private sector fund manager + Asian Development Bank
Global focus	Asia only
70% sub funds (with a focus on first time fund managers)	70% direct investments 30% sub funds
First close Dec 2012 and rolling closes since: USD $396.5 million	First close: expected this year

UK approach to mobilising private finance

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Interventions attempt to:

- Reduce cost and raise returns
- Reduce actual and perceived risk
- Develop enabling environments, build capacity

Considerations in designing interventions:

- Additionality
- Target market failure
- Careful use of subsidy
- Sustainability & exit
- Risk appetite

Global Innovation Lab for Climate Finance (‘the Lab’)

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- **Global Innovation Lab** is a public-private platform to develop the next generation of climate finance instruments

- Will bring together a small number of senior private and public sector actors, from both developed and developing countries to design, stress test and pilot instruments and approaches targeted at catalysing private investment in to climate friendly, low carbon projects and infrastructure in developing countries

- This global platform will move from ‘talk shop’ to action by being tightly focused on developing a small number of instruments that will work

- UK, US and Germany are leading the work. Denmark, Japan, the Netherlands and Norway have joined the initiative. Now we will reach out to developing countries and the private sector, asking to work in partnership

- We hope the Lab will develop robust proposals that countries and institutions can pilot and implement

More information:

https://www.gov.uk/government/policies/taking-international-action-to-mitigate-climate-change/supporting-pages/international-climate-fund-icf