Climate Investment Funds

Joint CTF-SCF.18/7
December 14, 2017

Joint Meeting of the CTF and SCF Trust Fund Committee
Washington D.C.
Friday, December 15, 2017

Agenda Item 7

CONCEPT NOTE: PROPOSAL FOR A TA FACILITY FOR CLEAN ENERGY INVESTMENT MOBILIZATION

Context

Achieving the objectives of the Paris Agreement as well as Sustainable Development Goal 7 (SDG7) on energy will require rapid scaling up of investments in clean and efficient energy technologies, the majority of which will include the private sector as providers of finance, technologies and expertise.

In order to achieve the Paris Agreement's temperature goal, investment in renewable energy supply will need to reach a total of 20 trillion USD between 2015 and 2050, and demand-side investment the double of that[1].

Clean energy investment supports multiple sustainable development and green growth benefits, including climate protection, energy security, jobs, and productive economies. Dramatic cost and technology developments are making mature technologies available for cost-effective deployment at scale. With clean energy technologies becoming increasingly competitive, the focus is turning to policy incentives, regulatory frameworks and the ability to attract private investors and capital. This is particularly the case for middle income developing countries, since their demand for energy services is set to increase significantly in the coming years and they will need to invest heavily in new energy supply and energy efficiency to meet the rising energy demand.

Governments are seeking to create markets for renewable energy and energy efficiency and pipelines of investable projects in renewable power and energy efficiency. To make this happen, governments including public regulatory and financial institutions have a key role to play in strengthening domestic policy frameworks for investment and improving the risk-return profile of such investments.

There is an increasing focus on the importance of addressing country specific barriers to investment mobilization in addition to existing efforts on policy, planning and regulation. This includes aspects such as development of pipelines of investable projects, ensuring that risks and returns of investments are acceptable, and making sure that the regulatory investment environment is attractive and conducive to private investment in clean energy.

Support for the green energy transition is taking place via both bilateral cooperation and multilateral organizations. Bilateral institutions as well as IRENA, IEA and other organizations are engaging emerging and developing countries in support of energy policy and planning. A number of initiatives focus on the development of pipelines of investable projects and matchmaking with investors.

MDBs, in addition to being an important source of funding, have a strong, continuous presence in partner countries that includes relationships with national finance and planning ministries as well as financial institutions. They have sectoral expertise and experience with technical assistance, institutional capacity building and project development, and are increasingly focusing on modalities for crowding in private finance. In response to the Paris Agreement and the SDGs, MDBs are committed to increasing clean energy and other green infrastructure investments and are increasingly focusing on their role in mobilizing domestic financial institutions and catalyzing private finance, including institutional investors.

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1 IEA (2017), Chapter 2 of *Perspectives for the energy transition – investment needs for a low-carbon energy system*, OECD/IEA; and IEA.

Purpose and focus of the proposed Facility

The proposal is to establish a Facility within the CIFs that will focus on technical support for establishing investment-friendly regulation and other investment-relevant framework conditions for renewable energy and energy efficiency, including by increasing predictability and security for investors, thereby enabling accelerated scale-up of investments in clean energy at lower costs of capital.

The Danish Government has allocated funding in support of the proposed Facility, in the hope that other contributors will join. The mandate for the Danish funding is to focus on middle income countries with the highest mitigation potential, with an initial geographic focus on Latin America and Asia. With funding from other sources, a wider group of countries may be included.

The MDBs play an important role not only in financing clean energy investments but also in supporting the enabling conditions for mobilizing investments, which increasingly will come from private sources. The proposed Facility will encourage and enable MDBs to strengthen their role in this regard by providing technical assistance at the country level.

The planned support will complement existing efforts by bilaterals, IEA, IRENA and others to support the clean energy transition in emerging economies and developing countries with a targeted focus on unlocking investment, focusing on the conditions that enable mobilization of private investment in the clean energy transition in emerging economies. It will help join up the existing bilateral and multilateral cooperation on energy policy and planning with the other elements in the value chain that are needed to scale up clean energy investments in a short timeframe and avoid locking in high-carbon energy supply.

The work will enable MDBs to address different stages of the investment "value chain" that are needed to bring down the cost of capital and accelerate clean energy markets and investments. This may include technical support in relation to:

- Policy and regulatory frameworks conducive to clean energy investment and market development, including policy and regulation that applies to the energy, investment and financial system.
- Measures that enable transactions through e.g. new business models, standardization of project documentation.

While the facility will not provide funding for investments, it may support technical work in the design and preparation phases of de-risking instruments, support facilities for development of project pipelines etc.

Particular focus will be on integrated approaches that work in partnerships across the public and private sector, on all fronts simultaneously and not in silos. A priority will be to increase the involvement of ministries and regulators responsible for economic development, finance and planning, as these are key to energy and climate policy as well as investment policy frameworks. Involvement by both the public and private sector arms of the MDBs will be important to ensure that issues in the interface between public and private are addressed and not overlooked. Partnerships with other international partners will be encouraged with a view to making complementary competencies available at the country level, including e.g. OECD, IEA and IRENA as well as bilateral actors.

The initiative may contribute to creating investment opportunities for a possible CTF2.0. However, the success of the initiative will not be measured mainly by the financing provided on the MDBs' own balance sheet, but rather by the ability to transform markets and catalyse investment by crowding in private investment financed from a range of source, domestic and international.

In addition to supporting the objectives of the CIF – including a possible CTF2.0 - the envisaged support is aligned with and will contribute to several international forums and processes with MDB involvement, including:

- Implementation of the Paris Agreement, in particular as regards development and implementation of ambitious NDCs as well as the objective of making finance flows consistent with low-emissions development.
- G20 work on climate, energy and green finance.
- The Clean Energy Ministerial and its work on investment mobilization.
- Financing for implementation of SDGs, in particular SDG7 on energy.
- The newly launched P4G (Partnership for Green Growth and the Global Goals 2030).
- Investment focused initiatives by MDBs such as Invest4Climate, NDC Invest etc.

Implementation and Governance

The proposed implementation model is similar to the "Knowledge from Evaluation for Learning in the Climate Investment Funds". This would imply:

- Creation of a "special initiatives budget", which would be funded through the SCF Administrative Budget.
- Creation of an Advisory Group.
- Appointment of a senior specialist to lead the implementation of the Facility.

The expected timeline and process for further consideration of the proposal will be:

- Presentation of the concept for "TA Facility for Clean Energy Investment Mobilization" at Joint CTF and SCF TFC meeting on 15 December.
- Consultation and preparation of a full-scale proposal during 1st quarter of 2018.
- Approval of Facility proposal in written during 2nd quarter of 2018.
- Commencement of operations and first funding commitments during 3rd quarter of 2018.