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Private Sector Engagement and Finance Instruments for Adaptation

Adaptation Rationale Workshop

14-17 November 2018, Cebu, Philippines



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1. Introduction: Private Sector Facility



Who We Are

PSF engages PS to tackle mitigation & adaptation

The Green
Climate Fund's
**Private
Sector
Facility**

We offer

- Tailored, lifecycle, concessional financing for high impact climate projects
- De-risking & scaling up private capital to solve climate challenges and barriers
- Expertise to help structure project ideas



Transport



Infrastructure



Ecosystems



Energy



Buildings, Cities,
Industries



Health, food and
water security



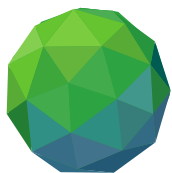
Livelihoods of
people & comm.



Forests and
land use



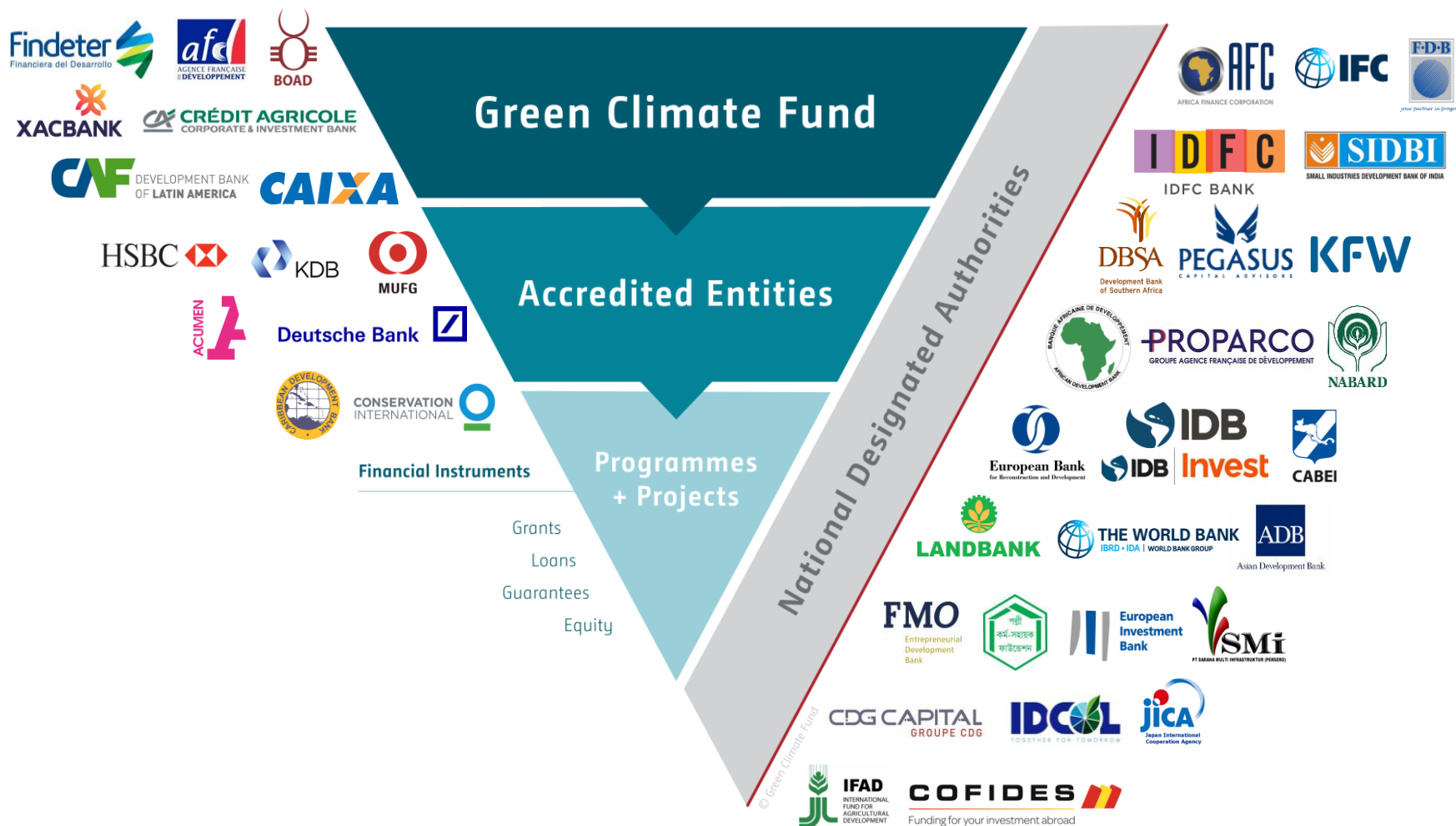
Engaging both local and global private sector to support climate action in developing countries

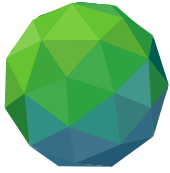


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How We Work

With AEs who channel funds to projects



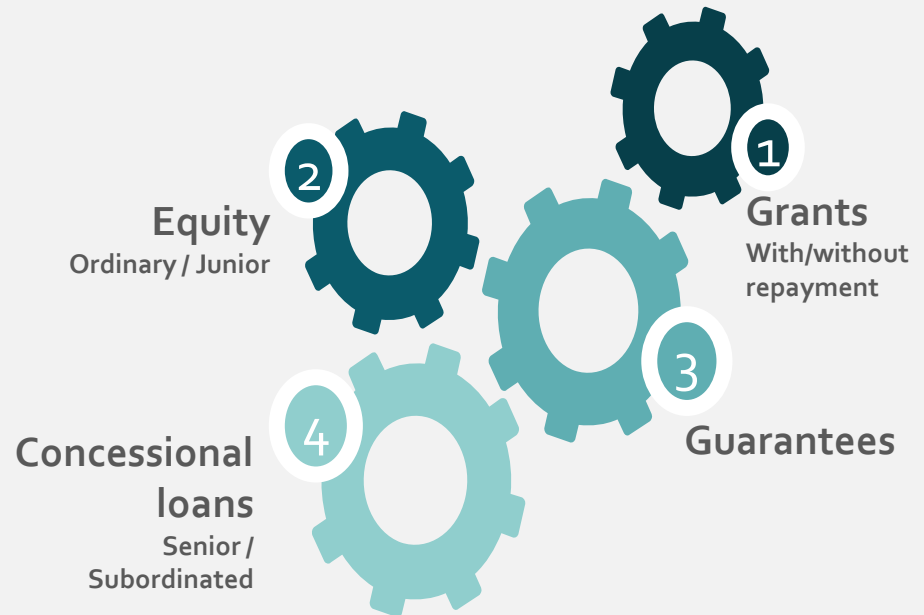


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How We Invest

Through a range of financial instruments

- We invest through a range of financial instruments, including equity, debt, guarantees and grants
- These can be combined into a variety of financing structures, e.g.:
 - Project-based (SPVs)
 - Direct equity/debt funds
 - Fund-of-funds
 - Structured finance vehicles
 - On-lending

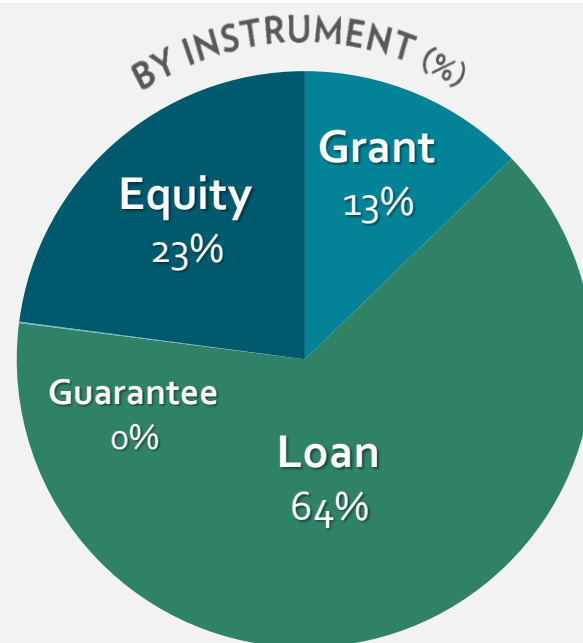




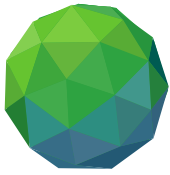
Our Portfolio to Date

Amounting to USD 1.82b in 20 projects

- After our 21st Board meeting in October 2018, GCF has committed USD 1.82 billion of funding across **20 private sector (PSF) projects**
- Loans and equity collectively account for ~87% of committed GCF funding for PSF projects
- Grants in most PSF projects are typically for technical assistance and capacity building
- Guarantees have only been used as a GCF investment instrument in two PSF projects



**Total PSF
USD 1.82b**



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Our Impact

Reducing 1Gt of CO₂ & reaching 29m beneficiaries

20

Projects



\$1.8B

GCF-financing

\$5.2B

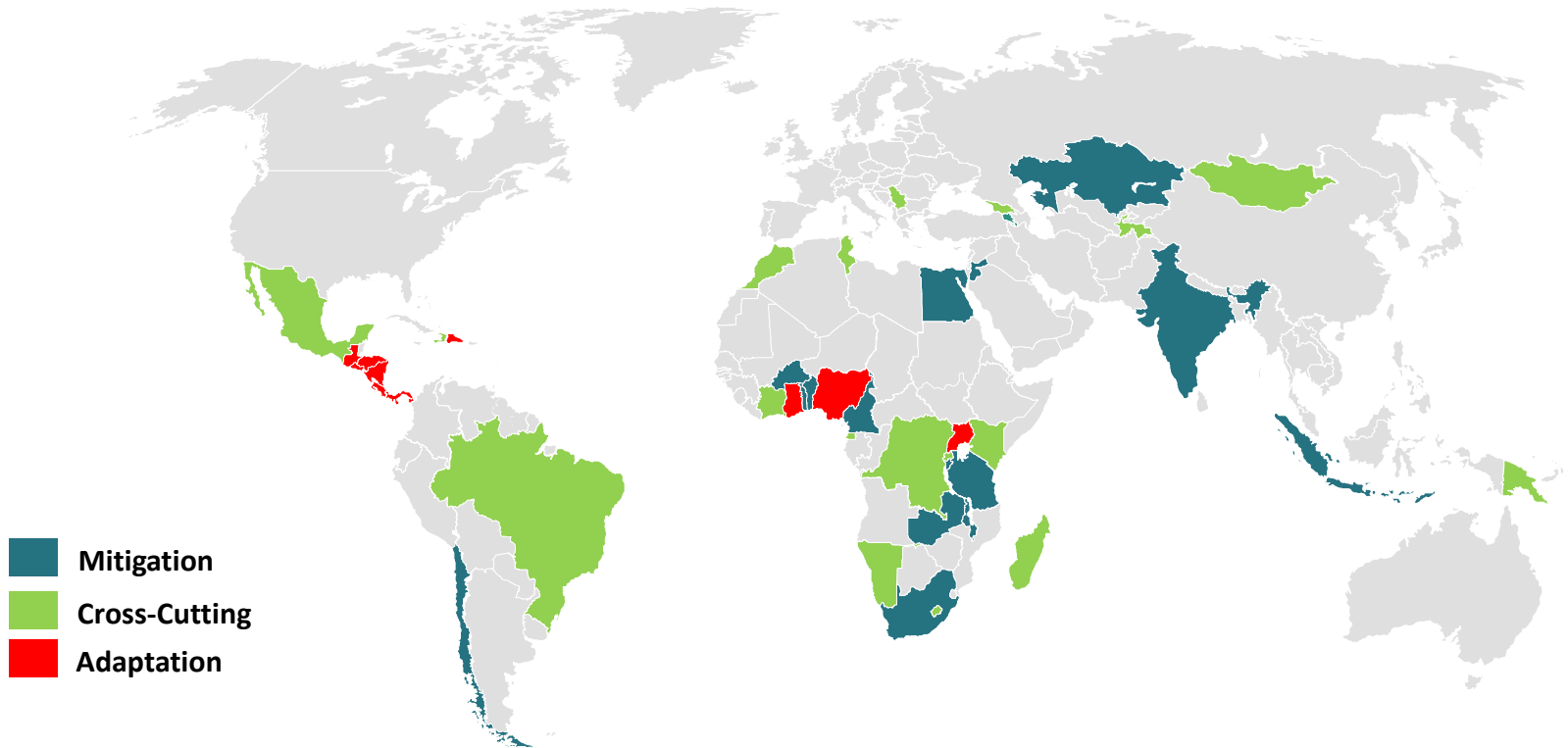
Co-financing

1.0Gt

CO₂ Reductions

~29M

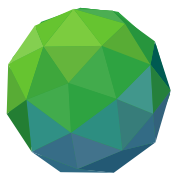
Beneficiaries





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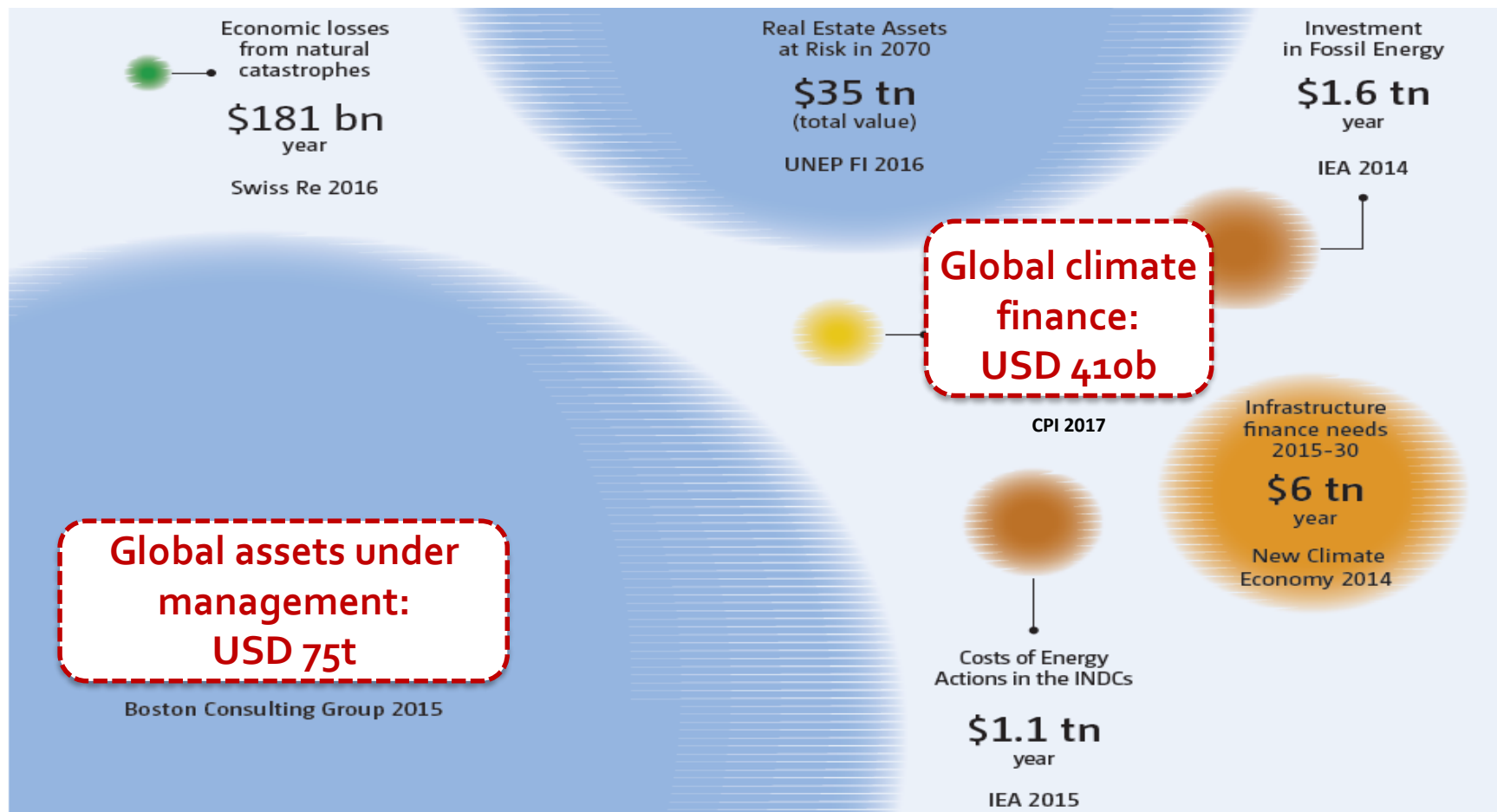
2. Why engage the private sector?



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Global AUM: USD 75t

Of which Global Climate Finance < 1%

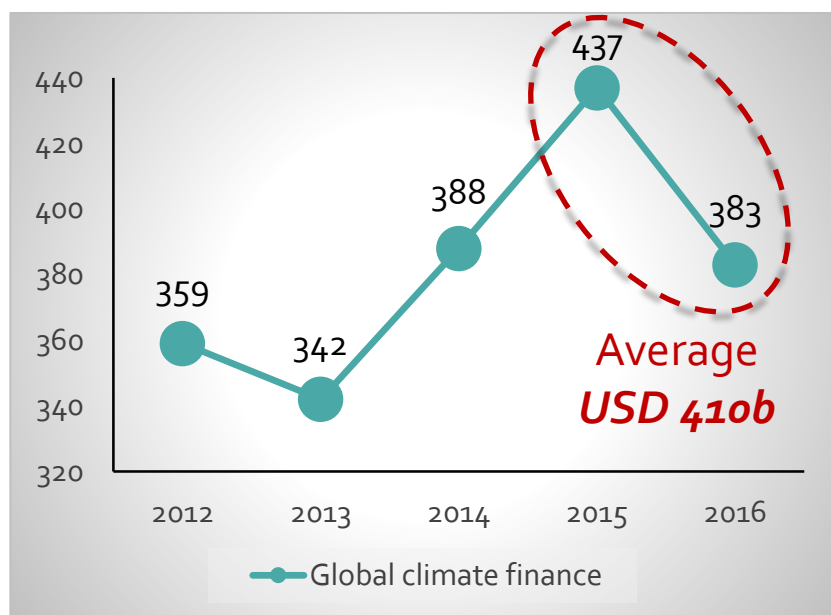




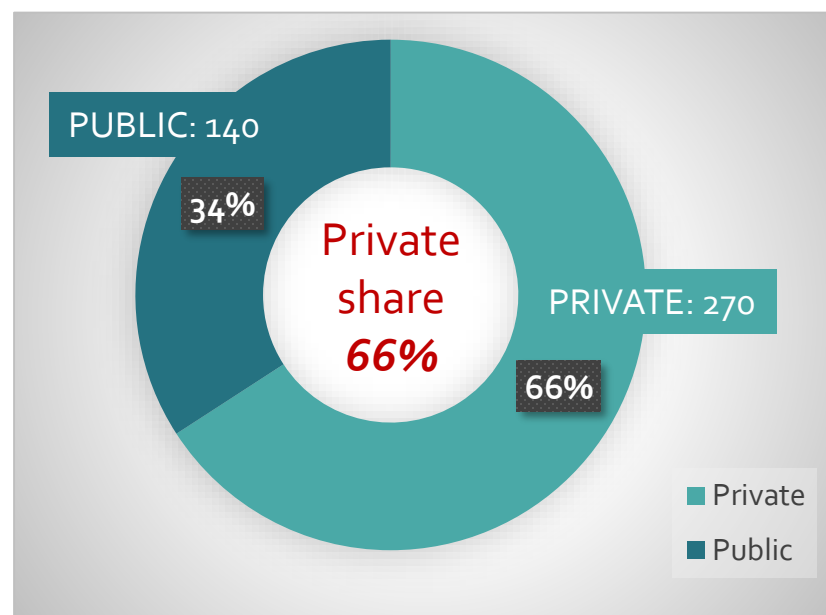
Climate Finance: USD 410b

66% coming from the Private Sector

Global Climate Finance 2012-2016 (USD billion)

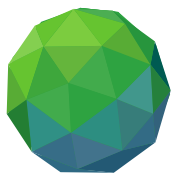


Investment by Source, 2015/2016 (USD billion)



(Source: CPI, 2017)

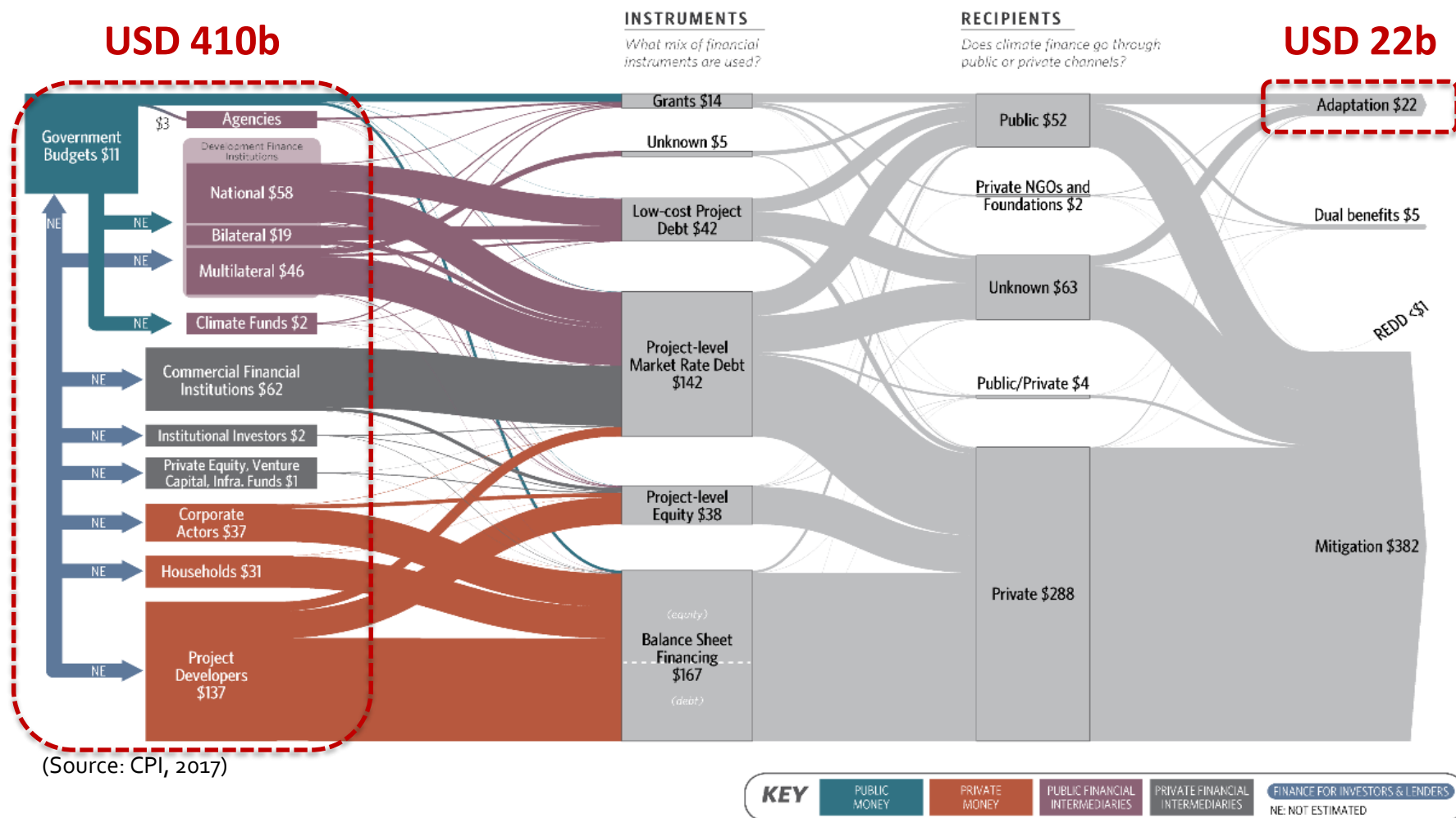
- Record in 2015 driven by surge in RE investments in China, U.S., Japan
- Decrease in 2016 due to falling technology costs and lower deployment in some countries

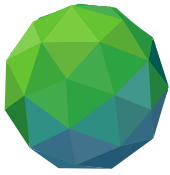


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Climate Finance: USD 410b

USD 22b used for Adaptation Finance



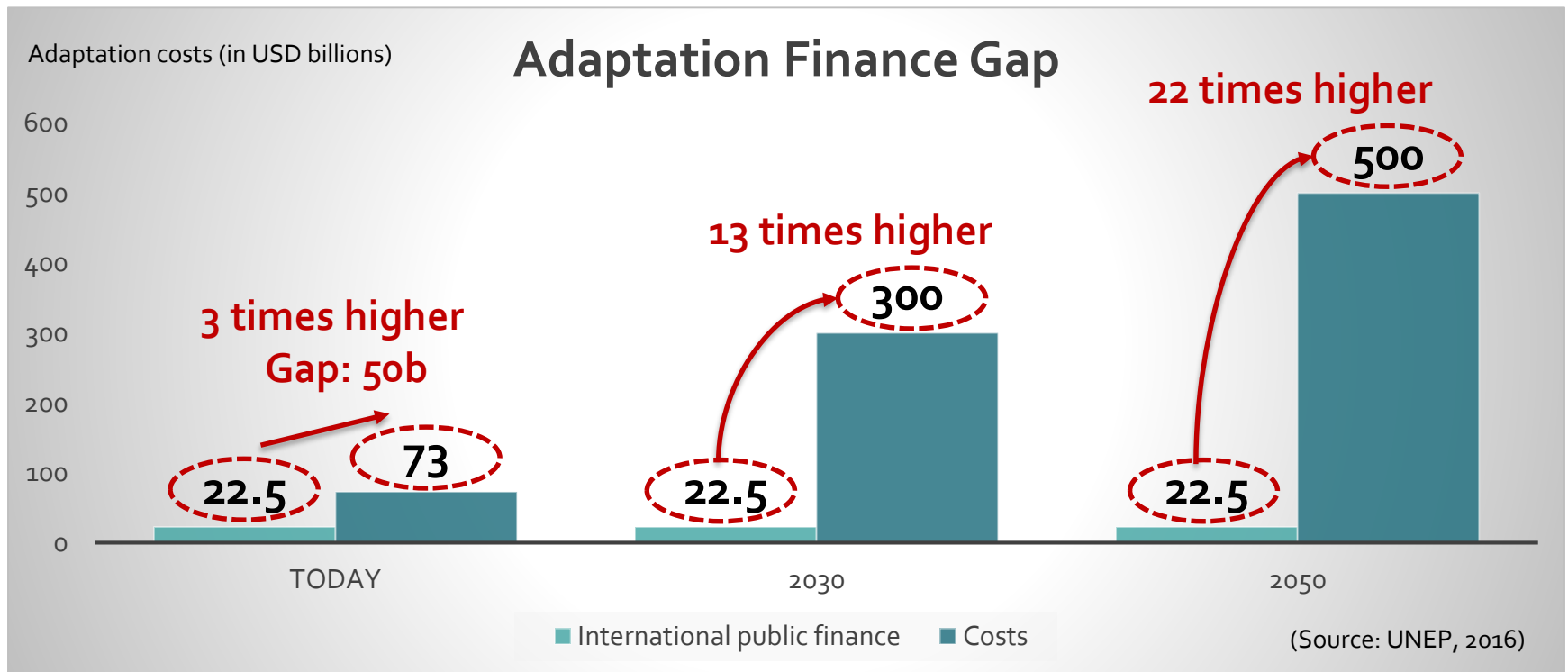


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Adaptation Finance Gap*: 50b

Costs 3 times higher & expected to grow

- Adaptation costs are higher than what is currently estimated to be spent.



* **The adaptation finance gap** can be defined as the difference between the costs of meeting a given adaptation target and the amount of finance available.



Relevance of Private Sector

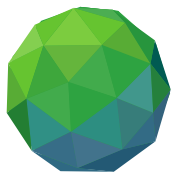
To fill the climate finance gap

- Up to **USD 300b till 2030 (& 500b till 2050) will be needed** to meet adaptation finance requirements
- **Government budgets will not be enough** to address climate change
- **Private capital is essential for investments** and technological innovation to fill the climate finance gap



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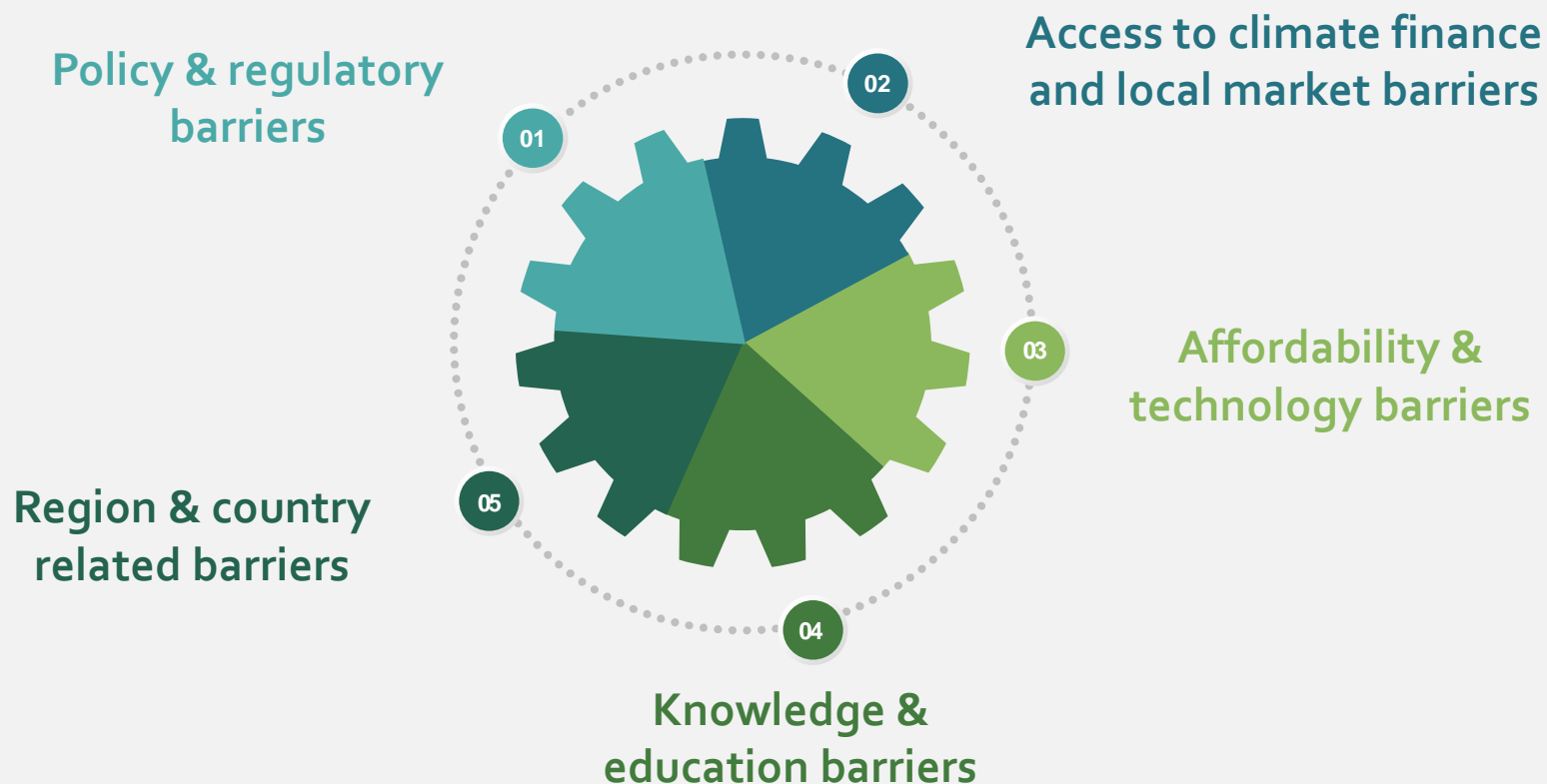
3. Barriers to private sector investment



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Overview of Barriers

In engaging the Private Sector

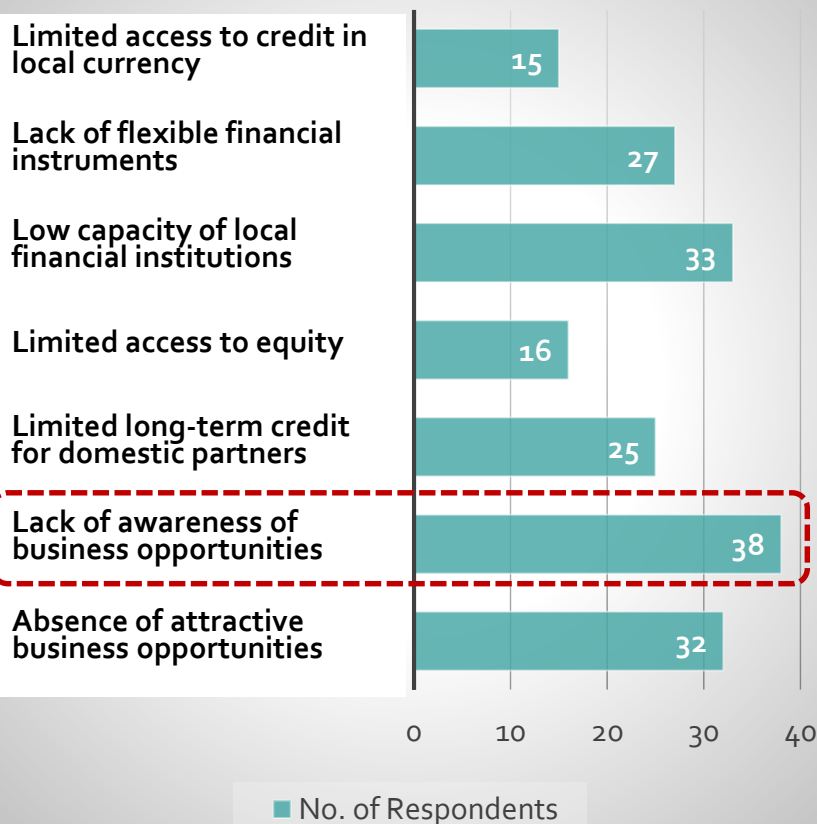




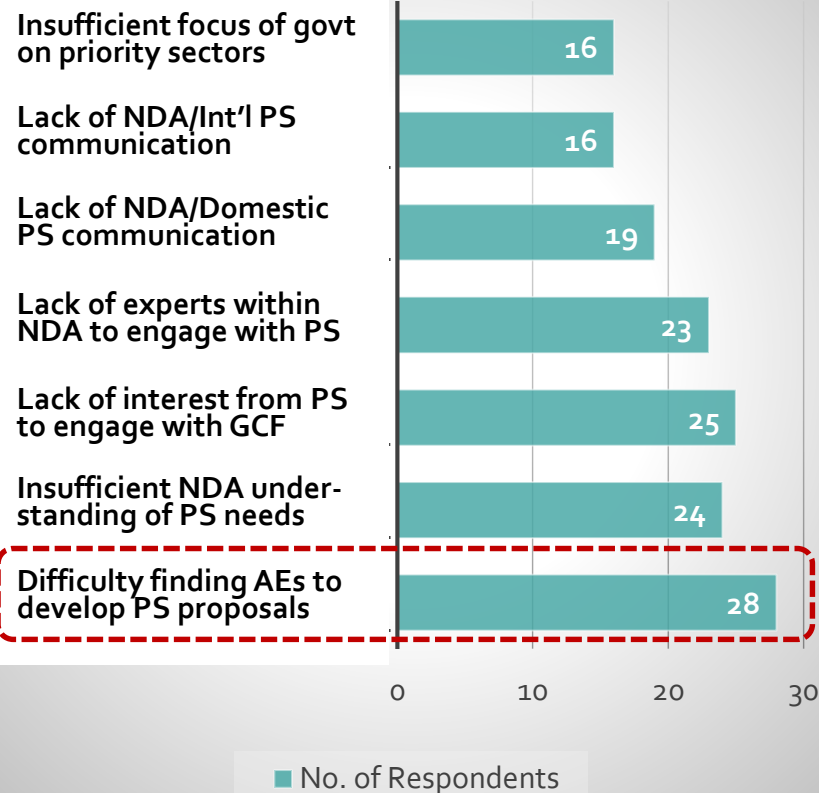
Barriers to PS Involvement with GCF

Identified by NDAs in GCF Strategy Survey

Private Sector Investment Hurdles



GCF Funding Proposal Hurdles





Barriers to PS Involvement with GCF

Identified by PS in GCF Strategy Survey

Latin America & Caribbean	Eastern Europe & Central Asia	Africa	Asia & Pacific Islands
<ul style="list-style-type: none">› Lack of project finance› Lack of longer tenor debt› Limited project pipeline <hr/> <ul style="list-style-type: none">› Lack of credit-worthy off-takers› Difficulty to find bankable projects› Government/regulatory challenges	<ul style="list-style-type: none">› DFIs distort markets› Price off-taker risk› Small/medium developers lack access to capital <hr/> <ul style="list-style-type: none">› No capital markets› Limited govt support for RE› PPPs limited by local stakeholder capacity	<ul style="list-style-type: none">› Lack of bankable climate projects› Lack of government capacity to incentivize private investment› Lack of affordable long-tenor financing in local currency	<ul style="list-style-type: none">› Project preparation› Lack of speed and additionality› FX volatility and capital controls <hr/> <ul style="list-style-type: none">› Lack of off-taker commitment› Lack of scale and volume of projects› Lack of liquid market for exits

(Source: GCF, 2018)



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4. GCF's solution to overcome the barriers



Role of Public Sector

In unlocking Climate Investments

- GCF can help local governments to:

I.

Get climate policies right

- › Put in place clear and consistent policies
- › Integrate NDC commitments into national development strategies and other sector policies (ex. NAPs)

II.

Strengthen the PS Investment Climate

- › Create a robust enabling environment for private investment
- › Reduce transaction costs and risks associated with PPPs
- › Introduce investment policies and incentives

III.


Strategically use limited budget

- › Use public funds to mobilize larger sums of private capital
- › Support project development to mobilize private capital
- › Design financial mechanisms to attract institutional investors



PSF's PS Engagement Solution

Based on PSAG recommendations

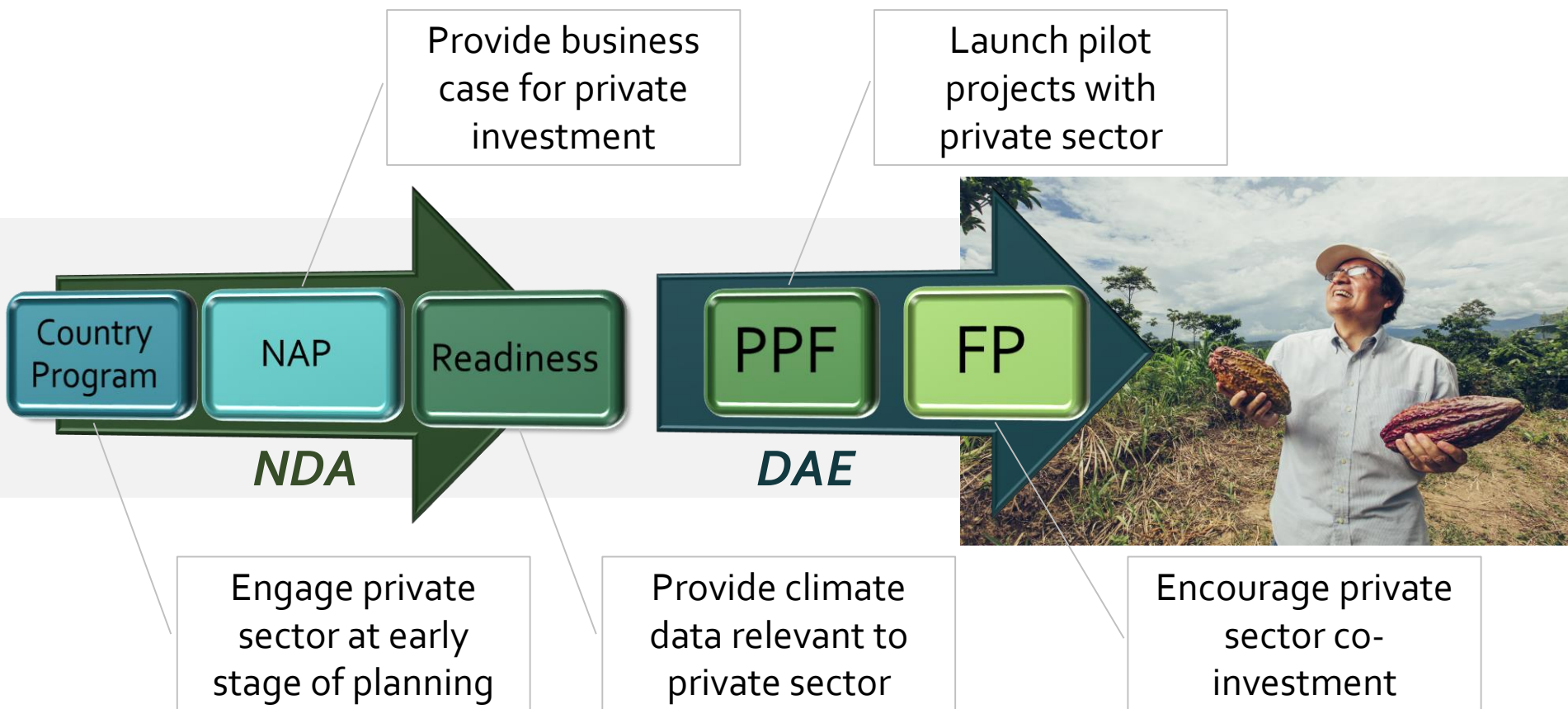
I.	Focus on risk transfer instruments	
II.	Facilitate blended finance & PPPs	
III.	Support broader enabling framework	
IV.	Support production of climate data and projections	
V.	Involve private sector in NAPs	
VI.	Partner with financial intermediaries	
VII.	Undertake deeper analysis of business models of PS	
VIII.	Develop funding proposals targeting specific gaps in PS	



How You Can Work with Us

From Country Programs to Funding Proposals

- Use GCF's Readiness & Project Preparatory Support in each stage to engage PS





To Create Adaptation Projects Such as CAMBio II & Acumen



USD 15.5m loan & grant to promote adaptation activities for agricultural MSMEs in Latin America



USD 26m equity & grant for adaptation impact fund to support and scale up agribusinesses in Africa

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Breakout Sessions

Session 4A.

Public-Private engagement for national adaptation planning

Presenter: Tom Bishop

1. Presentation

- Private sector engagement in NAPs
- NAP review on how private sector can add value
- Country experiences

2. Break-out discussion

3. Q&A

Session 4B.

Developing an adaptation private sector proposal for the GCF

Presenter: Federico Gallopin

1. Presentation

- What PSF looks for in an FP
- Examples of adaptation FPs and PPFs
- Country experiences

2. Break-out discussion

3. Q&A