



GREEN
CLIMATE
FUND

Introducing GCF's Private Sector Facility

GCF Private Investment for Climate Conference

09 October 2019

Mission & Vision



Our Mission

To promote private sector climate action in developing countries by de-risking the delivery of capital flows for low carbon and climate resilient development

We do this through innovative structuring using instruments such as:

- ✓ *Senior & subordinated debt*
- ✓ *Development equity*
- ✓ *Subordinated equity*
- ✓ *First loss equity*
- ✓ *Guarantees*
- ✓ *Fit for purpose grants such as result-based payment*

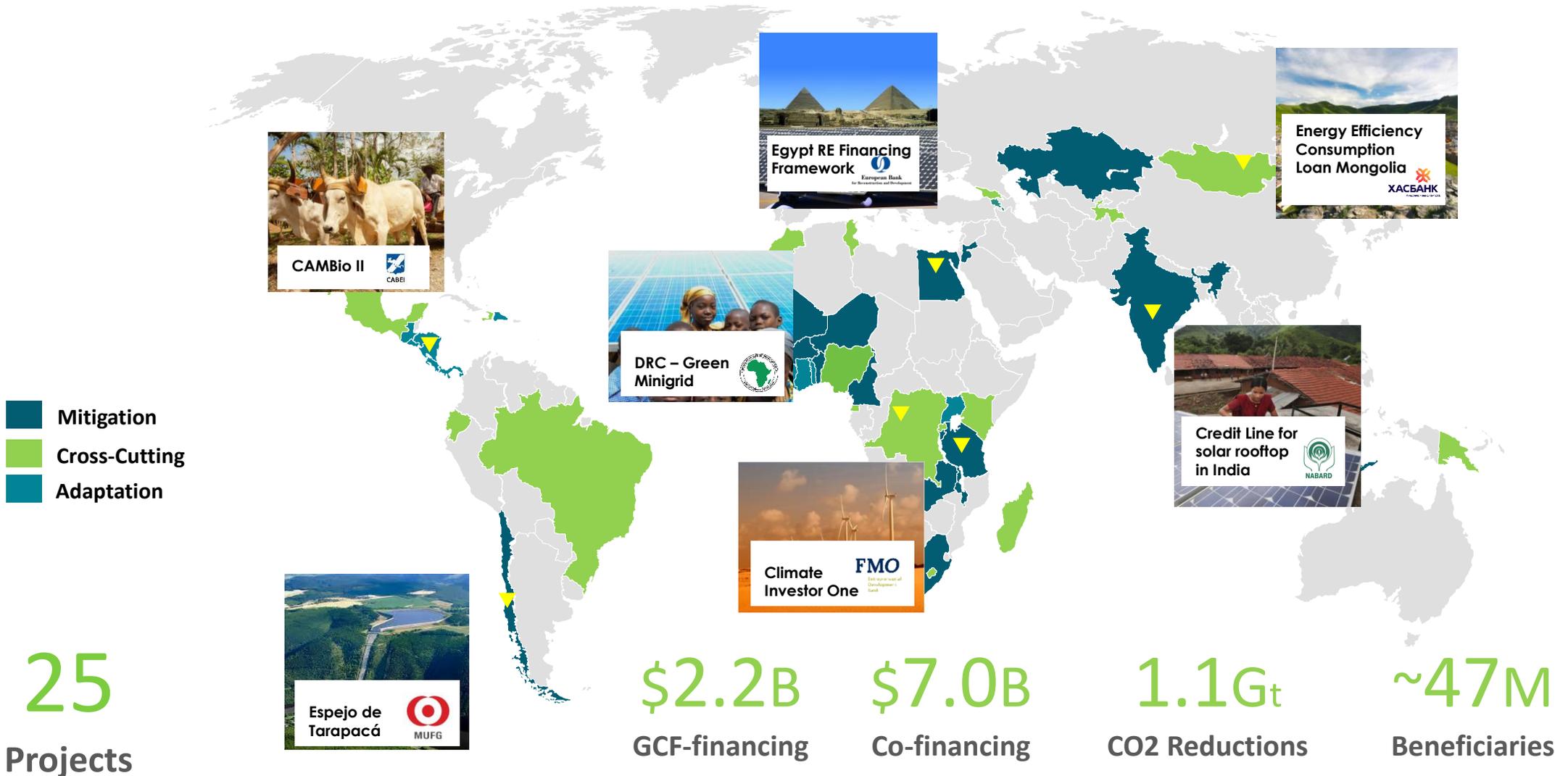


Our Vision

To emerge as a premiere climate knowledge and investment hub for private sector climate action



PSF Impact



What do we look for?

Additionality of GCF Funding

- Why GCF?
- Projects must crowd-in additional financing on top of GCF

Strong Climate Rationale

- Climate Impact of investment is key
- Scientific evidence to provided

8 Results Areas



Energy



Transport



Buildings, Cities, Industries



Ecosystems



Livelihoods of people & comm.



Health, food and water security



Forests and land use



Infrastructure

Compliance with GCF Policies

- Fiduciary standards
- Risk Management
- ESS
- M&E Criteria
- Gender Policy
- Legal Standards

Country Driven Approach

- Alignment with NDCs
- Early country (NDA) engagement
- No-objection letter

Six Investment Criteria

1. Impact Potential
2. Paradigm Shift Potential
3. Sustainable development potential
4. Recipient needs
5. Country ownership
6. Efficiency & effectiveness

Completeness of documentation

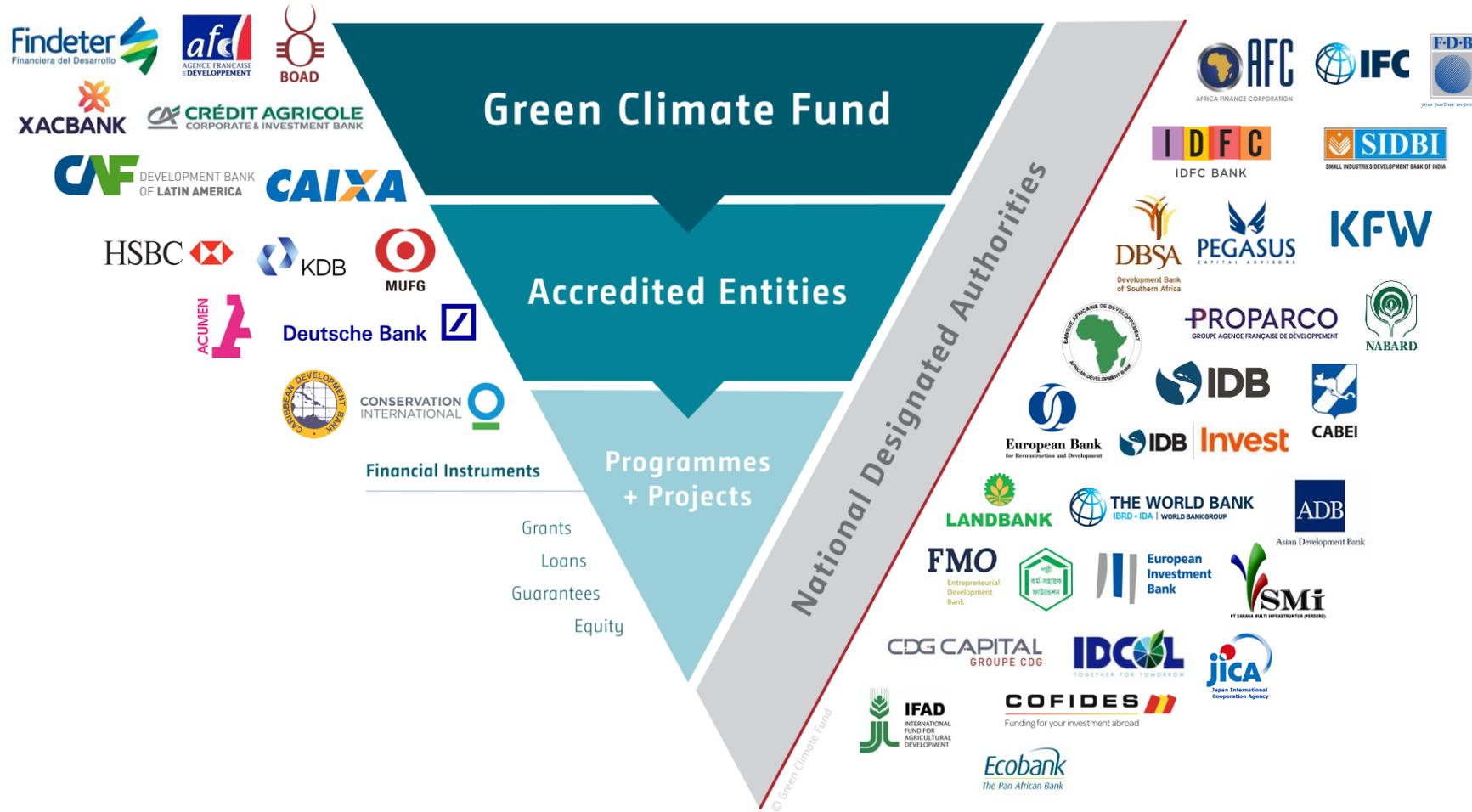
- Feasibility study
- Financial Model
- Project Timetable
- Gender Analysis
- Environmental studies
- No-objection letter



GREEN CLIMATE FUND

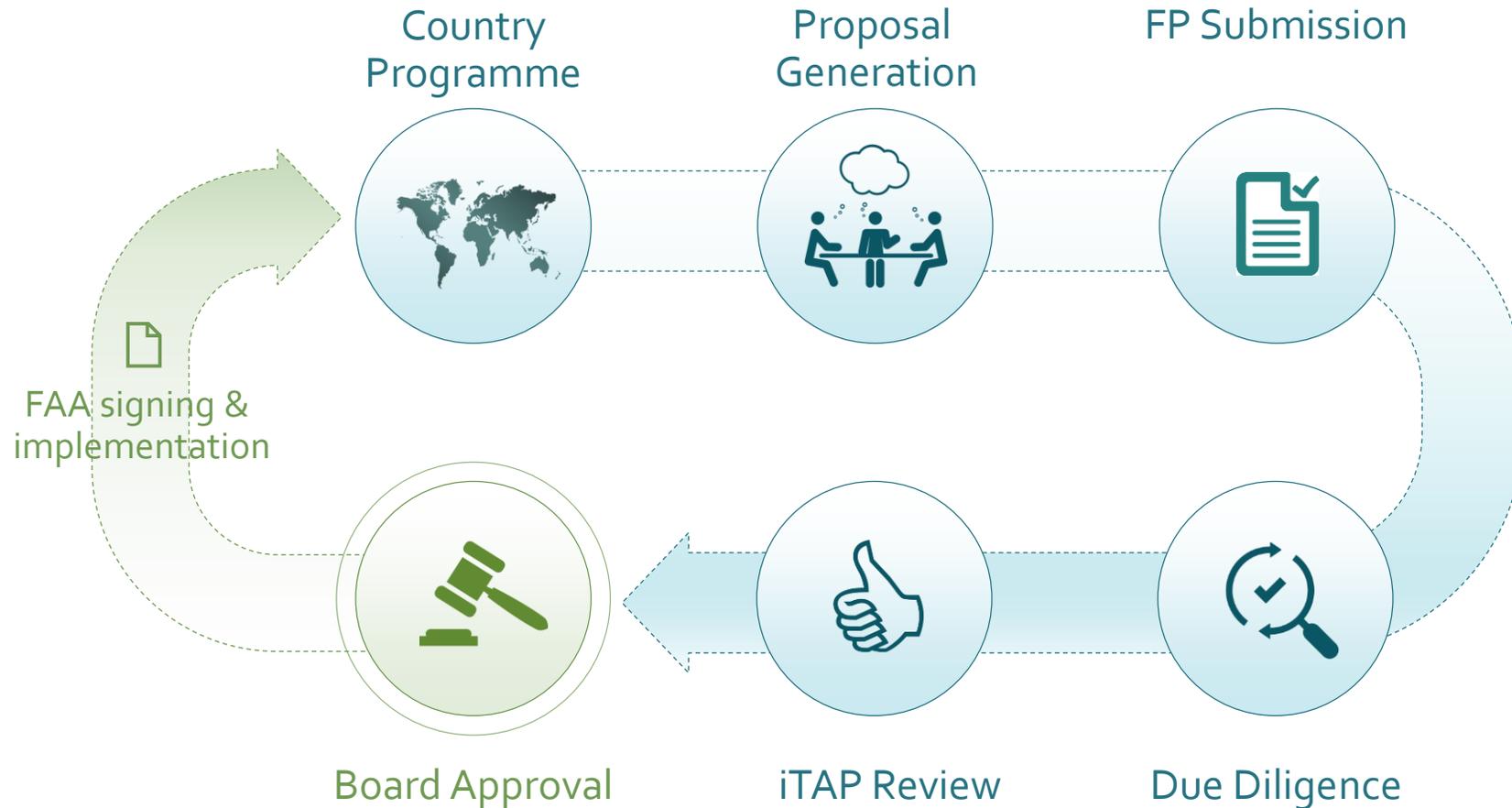
How do we work?

With AEs who channel funds to projects



How do we work?

Country-driven approach





GREEN
CLIMATE
FUND

Activities

PRIVATE EQUITY FUNDS

Being the premier anchor investor in climate investment equity/debt Funds

- ✓ **Supporting first-time fund managers** in technology, early equity and adaptation funds
- ✓ **Encouraging early-equity investment** in underserved geographic regions where equity is not traditional
- ✓ **Spurring local innovation & global accelerators** in countries with high innovation
- ✓ **Launch successful adaptation funds**

Espejo de Tarapaca (MUFG)

FINANCIAL INSTITUTIONS

Mainstreaming climate change mitigation and adaptation in the financial sector

- ✓ **Extend credit lines to local FIs** to finance mitigation and adaptation projects
- ✓ Increase access to green finance for **MSMEs** with **risk sharing facilities**
- ✓ Provide **readiness** support to **green the financial sector** by promoting sustainable finance
- ✓ **Establish green banks**

Business loan program for GHG emission reduction (XacBank)

PROJECT FINANCE

Tailoring life cycle, concessional financing to de-risk high impact projects

- ✓ **Promoting new business models:** De-risking and crowding in debt and equity capital
- ✓ **Supporting transformative & replicable investments at scale:** Structuring solutions to alleviate barriers.
- ✓ **Seeding climate investment vehicles:** Systemic intervention to crowd in domestic capital

Egypt renewable energy financing framework (EBRD)

STRUCTURED FINANCE

Capital/carbon/insurance markets that require bespoke structuring solutions

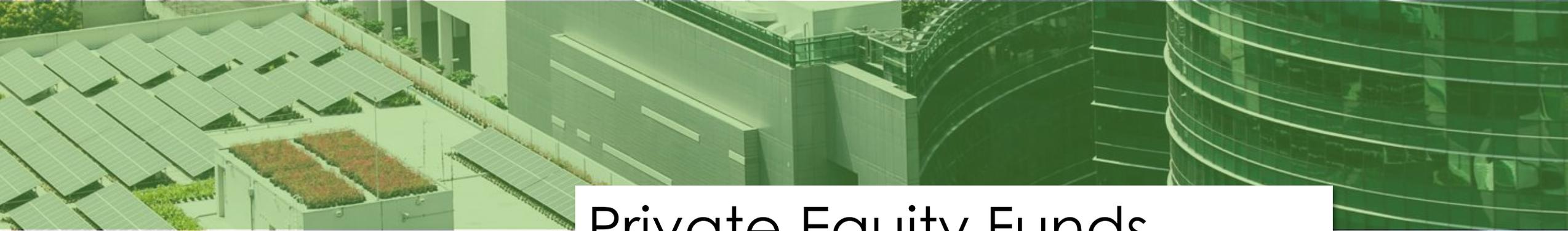
- ✓ **Innovative structured financing solutions:** Use of securitization / green bonds
- ✓ **Support REDD+/carbon markets:** Tailored price support to boost private sector emission reduction demand
- ✓ **Promoting insurance-based financing products:** Scale up use of insurance as a tool for risk sharing/mitigation

Climate Investor One (FMO)



Our Team



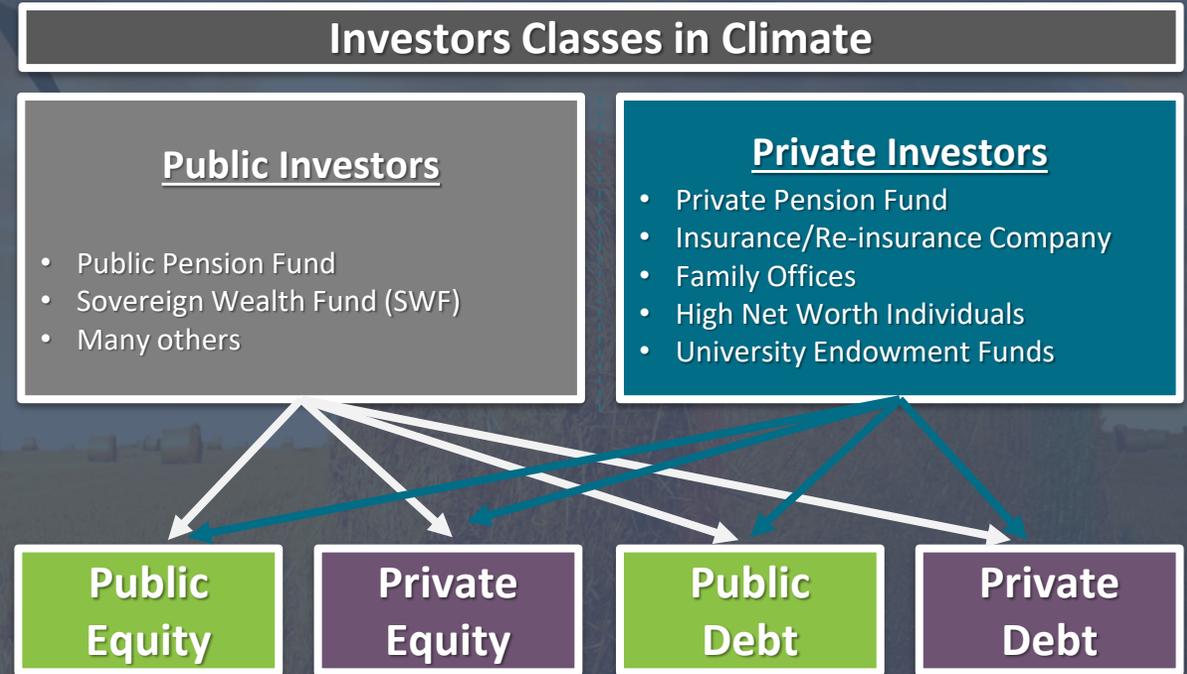
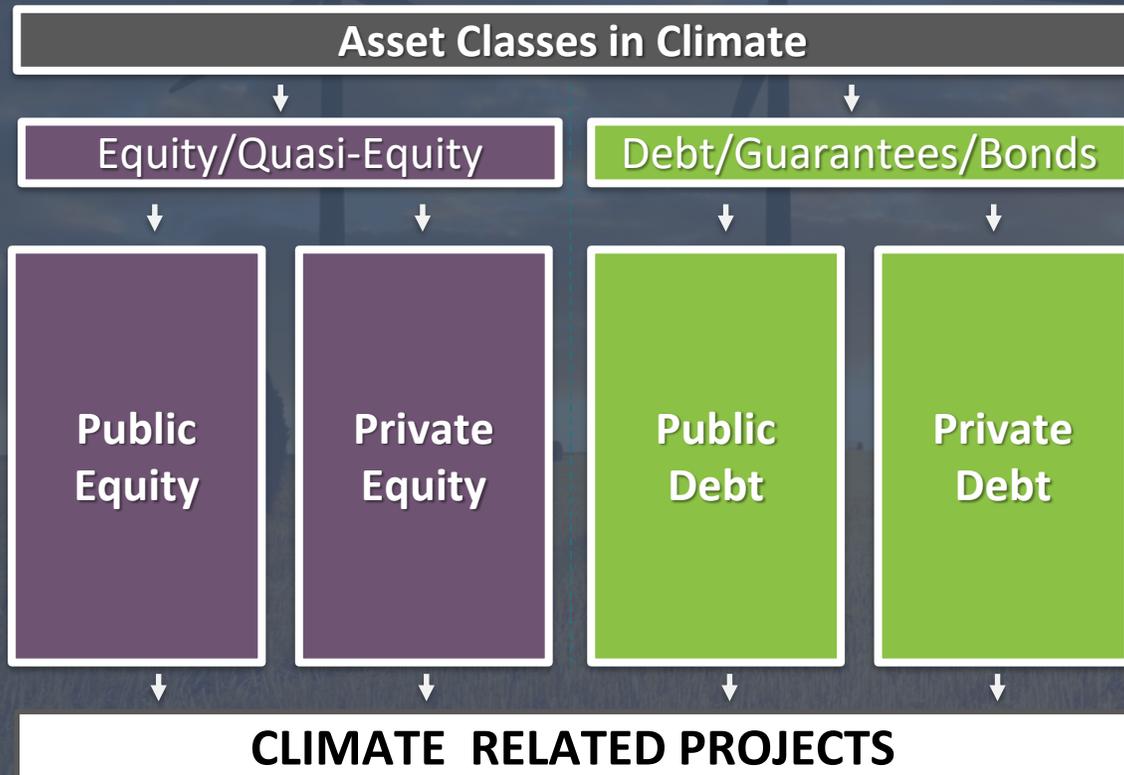


Private Equity Funds



GREEN
CLIMATE
FUND

WHAT ARE PRIVATE EQUITY FUNDS?



Both public and private institutional investors invest in public and private equity and debt according to their risk profile, return ambitions and strategies.



GREEN
CLIMATE
FUND

WHY PRIVATE EQUITY AT GCF?



Introducing new technologies



Advising on more aligned climate investing strategy



Driving strong climate impacts

Building better financial structure



Improving governance and transparency



Adopting best standards of environmental management



Providing new supply and distribution relationships



Where PE Fund Managers add value



GREEN
CLIMATE
FUND



Supporting NDCs, de-carbonization
and sustainability of markets

WHY PRIVATE EQUITY AT GCF?

- ✓ GCF 6 Investment Criteria
- ✓ GCF 8 Impact Areas



GREEN
CLIMATE
FUND

COUNTRY OWNERSHIP FOR GCF CLIMATE PE FUNDS



Early alignment between NDCs and the PE fund strategy is essential to develop funds and projects within the context of country strategies, supported by countries through NOLs



GREEN
CLIMATE
FUND

BENEFITS FOR ALL PARTIES IN CLIMATE PE

All parties must benefit to create
lasting alignment

COUNTRIES

GCF

PROJECT
SPONSORS

COMPANIES

INVESTORS

FUND
MANAGERS



GREEN
CLIMATE
FUND

POTENTIAL CLIMATE PE INVESTORS

1 Public and Private Pension Funds

3 Insurance Companies/Re

5 Private Equity Fund-of-Funds

7 High Net Worth Individuals (HNWI)

2 Family Offices

4 Retail Investors

6 Financial Institutions

8 Multilateral Development Banks



GREEN
CLIMATE
FUND

TYPICAL PE CO-INVESTMENT STRUCTURE



GCF as anchor investor and catalyst to unlock private sector capital into climate action



Typical PE investments are up 20% of the total project funding, with an expected mobilization ratio of 1:4 – 1:5



GREEN
CLIMATE
FUND

PROJECT/PROGRAM EXAMPLE



PROJECT

Espejo de Tarapacá



ACCREDITED ENTITY

 MUFG



APPROVED

July 2019



COUNTRY

Chile



TOTAL PROJECT INVESTMENT

\$1.1 B



CLIMATE IMPACTS & CO2 REDUCTION

17,600,550 People

Anticipated **35.0 M** Tonnes of
Co2 equivalent Avoided



BRIEF SUMMARY

Providing stable, 24-hour baseload energy and solving the intermittency of renewable energy through a combination of pumped storage hydroelectric energy and a solar power plant.



GREEN
CLIMATE
FUND

PROJECT/PROGRAM EXAMPLE



PROJECT

GEEREF NeXt



ACCREDITED ENTITY

EIB



APPROVED

April 2017



COUNTRY

Multiple Countries - Global



TOTAL PROJECT INVESTMENT

\$750 M



CLIMATE IMPACTS & CO2 REDUCTION

Anticipated **769 M** Tonnes of
Co2 equivalent avoided



BRIEF SUMMARY

Fund of funds with the aim of being a first investor (anchor investor) in renewable energy/ energy efficiency (RE / EE) investment funds, and encouraging other investors to co-invest.



Financial Institutions



Financial Institution's Vision

Offering **green finance Readiness** at the policy level to build an enabling environment

Delivering **green credit lines** to corporates, MSMEs and households through local FIs

**Transforming
Financial Systems for
Climate**

Awareness raising and outreach to promote transition to a climate compatible financial system

Supporting the establishment of **national green banks** or **green investment vehicles**

Potential Interventions

Readiness Programme

- Promote country-level green finance initiatives and knowledge sharing

Debt

- Green credit lines and green bonds to FIs to finance green projects

Accreditation

- Banks naturally become greener by going through GCF accreditation process

Equity

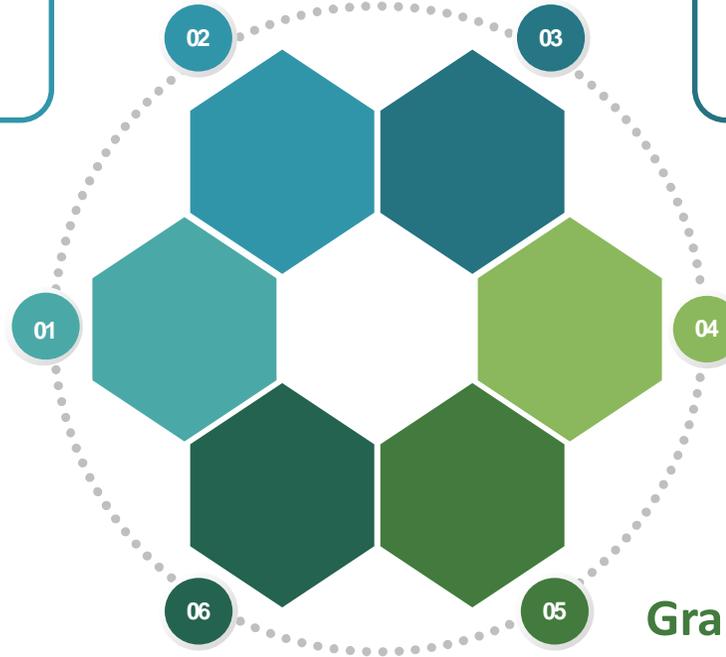
- Equity investment in green FIs, platforms, and funds

Guarantee

- Guarantee FI credit lines, portfolios, etc.

Grant

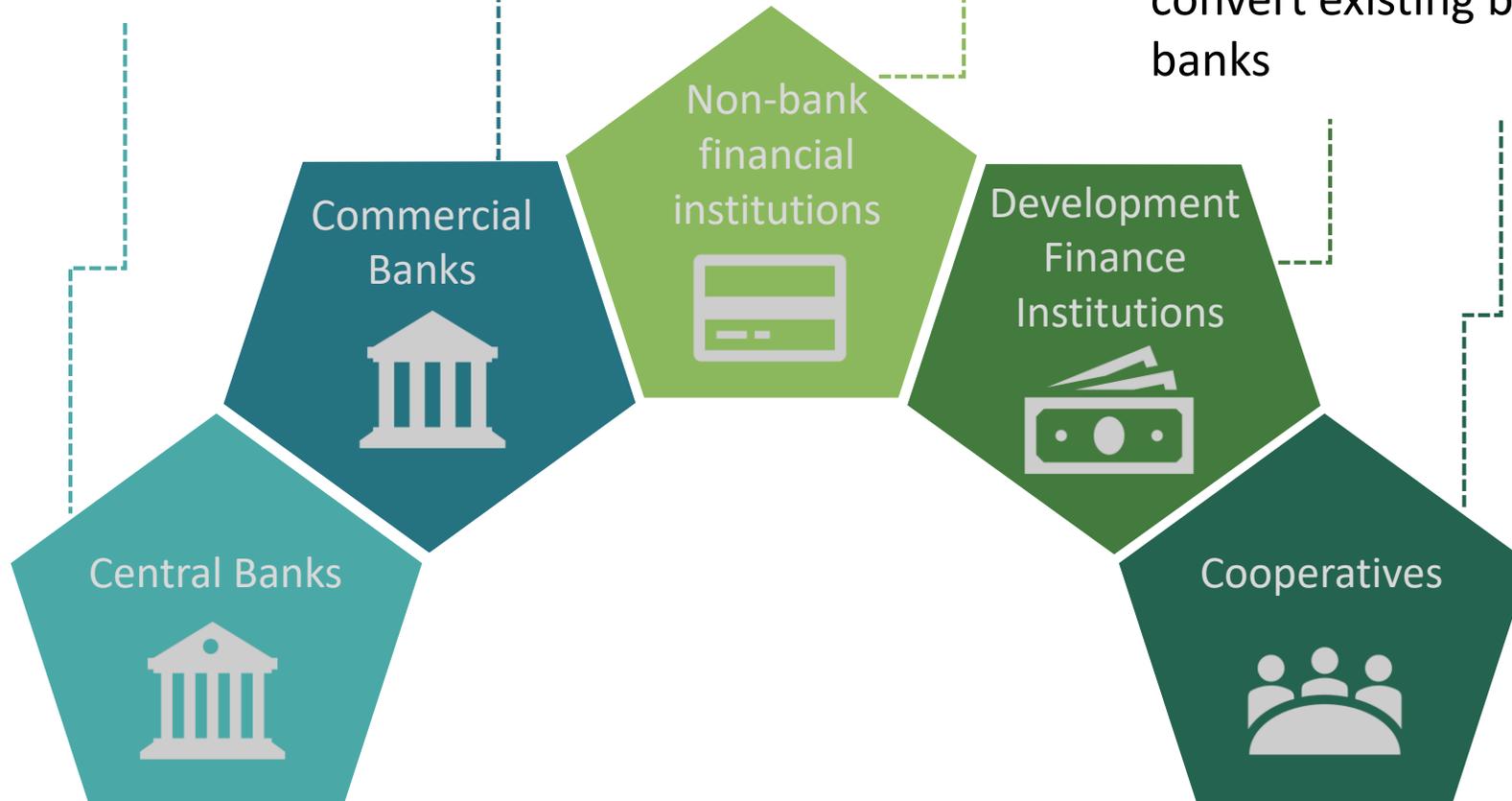
- Technical assistance for capacity building of FIs, ESS/gender mainstreaming, etc.



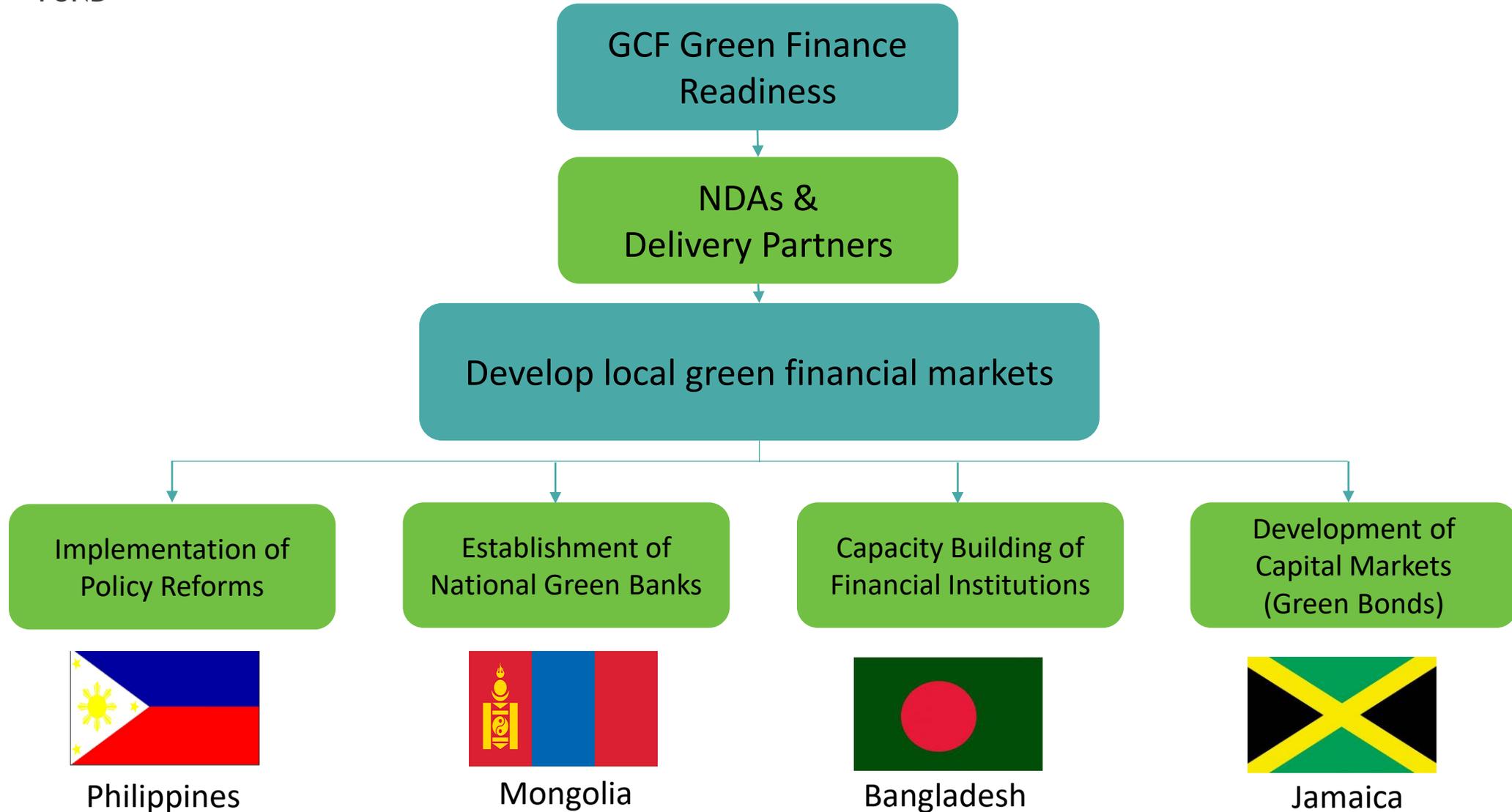
Types of Financial Institutions

Provide readiness support to central banks to scale up green finance

Provide financing for green lending (on-lending) and risk sharing programmes, and set up green FIs or convert existing banks into green banks



Green Finance Readiness



Sample PSF Project

Low-Emissions and Climate Resilient Agriculture Risk Sharing Facility

Countries	GCF financing	Accredited entity	Financial instrument
Guatemala, Mexico	USD 20 million	IDB	Concessional Loan, Guarantee, Equity, Grant

- Risk sharing facility designed to unlock innovative and scalable financial instruments to support the transition to low-emission and climate resilient agriculture for MSMEs.
- Demonstration effect of the programme to attract private investments in resilient agriculture, with a leverage ratio of 6.4, for a total project investment of USD 158 million.
- Emissions reduction of 9.2 million tCO₂e and 800,000 beneficiaries





Project Finance

Financing & Investment Barriers

LENDERS



INVESTORS



We tailor lifecycle concessional financing to de-risk **long-term infrastructure projects** for climate

We take on **financing barriers and investment constraints** that prevent transformational climate investments



Appraisal and pricing of risks

✓ Lack of internal capacity



A-L Mismatch

✓ Over-reliance on short term liquidity



Exposure

✓ Mature markets – Concentration norms



Access

✓ High risk perception of climate investments



Tenor

✓ Shorter tenors – Incompatible with climate projects



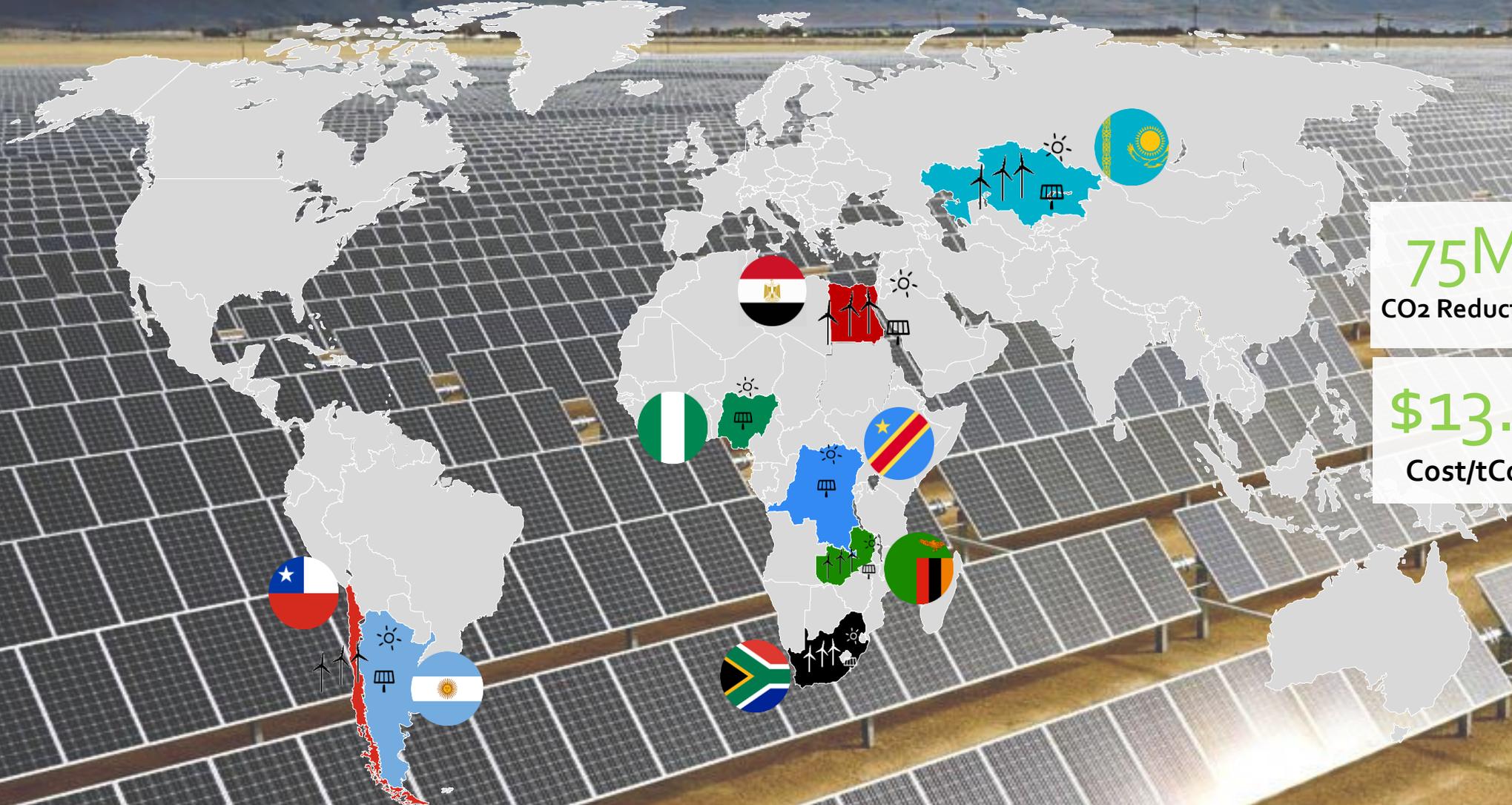
Pricing

✓ Steep & Uncertain



Lead Times

The Journey so far Project Finance during IRM



9
Projects

75Mt
CO₂ Reductions

\$800M
GCF-financing

\$13.6
Cost/tCo₂

\$3.0B
Co-financing

2.2GW
Capacity

PSF Success Stories

Egypt Renewable Energy Financing Framework

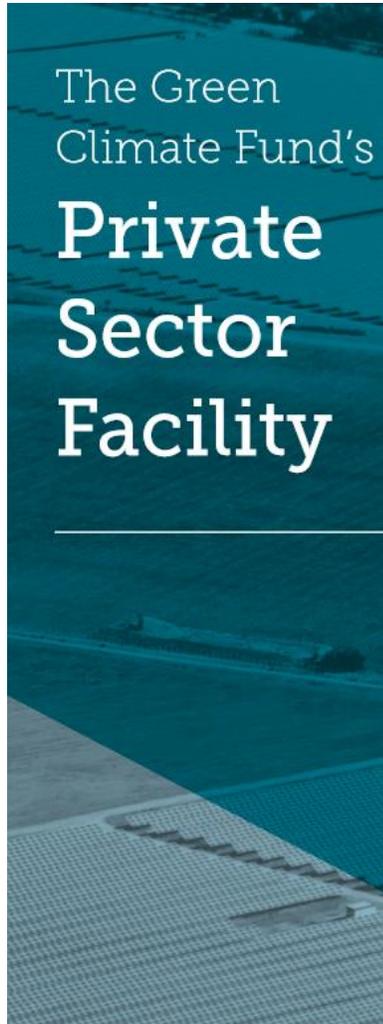
Country	GCF financing	Accredited entity	Financial instrument
Egypt	USD 154.7 million	EBRD	Loan, TA Grant

- Encourages private sector investment in an environment with negligible renewable capacity installed
- Addresses the lack of capital for project development
- Facilitates transition to auction-based procurement
- Est. emissions reduction of 19 million tCO₂e
- Projects partially operational



Project Finance Success Stories

Replication of Renewable Energy Financing frameworks



Kazakhstan

- Supporting the construction of **330 MW [Est. ER 12 million tCO₂e]**
- Providing country with a credible roadmap to reduce domestic fossil fuel intensity
- Debottlenecking RE investments through targeted transmission interventions
- [More Details](#)

USD 110 M



Zambia

- Supporting the construction of **100 MW [Est. ER 3.3 million tCO₂e]**
- Reducing dependence on climate afflicted hydro
- Structure facilitates local bank and national pension fund participation in financing projects [More Details](#)

USD 60 M



South Africa

- Supporting the construction of **330 MW [Est. ER 14.4 million tCO₂e]**
- Testing new market modalities, reducing reliance on fiscally constrained government and public utility Eskom
- Structure de-risks financing for perceived “high risk” RE projects [More Details](#)

USD 100 M



Nigeria

- Supporting the construction of up to **400 MW [Est. ER 9.5 million tCO₂e]**
- Contributing to Nigeria’s energy sector transformation by demonstrating the risk-return profile of currently untested utility scale solar IPPs [More Details](#)

USD 100 M

Way forward

An expanded suite of offerings

New Areas

Additionality in new result areas

- ✓ Open up clean mobility, energy efficiency, energy storage, and sustainable housing
- ✓ Continued engagement with existing partners and building new relationships

New Products

Catalytic Interventions in projects and platforms

- ✓ Catalytic, early stage or growth equity
- ✓ High risk debt – bridge, mezz
- ✓ Guarantee/de-risking vehicles
- ✓ Tailored products- liquidity support/ backstop facility

New Markets

Mitigate perceived risks

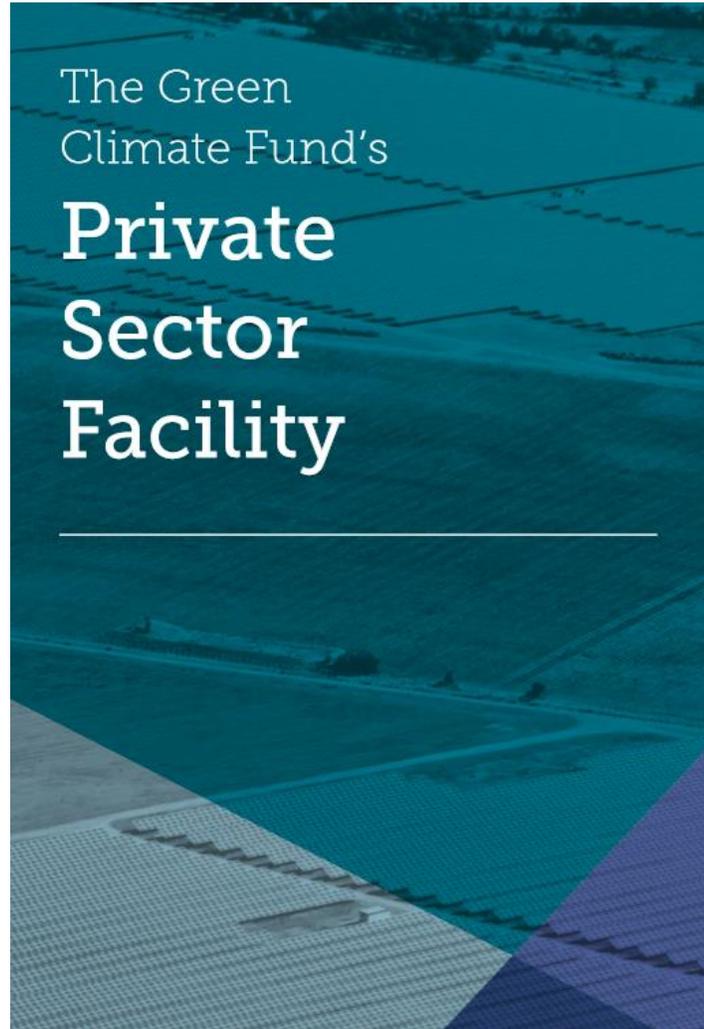
- ✓ Renewed focus on big emitters
- ✓ Demonstrate bankable business models in SIDS and LDCs



Structured Finance Team



Structured Finance within PSF



Traditional Structured Finance

- Repackaging of cash flows that can transform the risk, return, and liquidity characteristics of financial portfolios
- Examples of traditional SF financial products incl. asset-backed securities (ABS) and securitized/collateralized debt instruments

PSF: Structured Finance+

- Broader range of financing structures, including traditional SF (e.g. securitization/ABS) and other modalities
- Focus on delivering projects requiring more complex and bespoke structuring solutions and innovative features

Objectives and Strategies

OBJECTIVE

**Mobilize capital markets
to accelerate
deployment of private
capital at scale in
climate investments**

STRATEGIES



Attract private investors seeking capital returns and climate impacts



Support pioneer projects through a range of structures/instruments



Leverage carbon markets to boost climate actions

Financial Instruments

Equity

- Equity investment through innovative vehicle to finance pioneer and early stage projects

Green bond

- Green bonds and associated securities to incentivize private sector to invest in climate change activities

ABS/ CDO

- Securitization and collateralization to achieve greater reach and impact at scale (e.g. solar ABS)

Guarantee

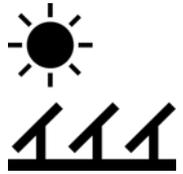
- Mitigating risk exposure associated with acquisition of climate assets (e.g. carbon credit price support)

Insurance

- Risk sharing for climate activities (e.g. parametric insurance)

Examples of SF projects/structures

Securitization/ABS

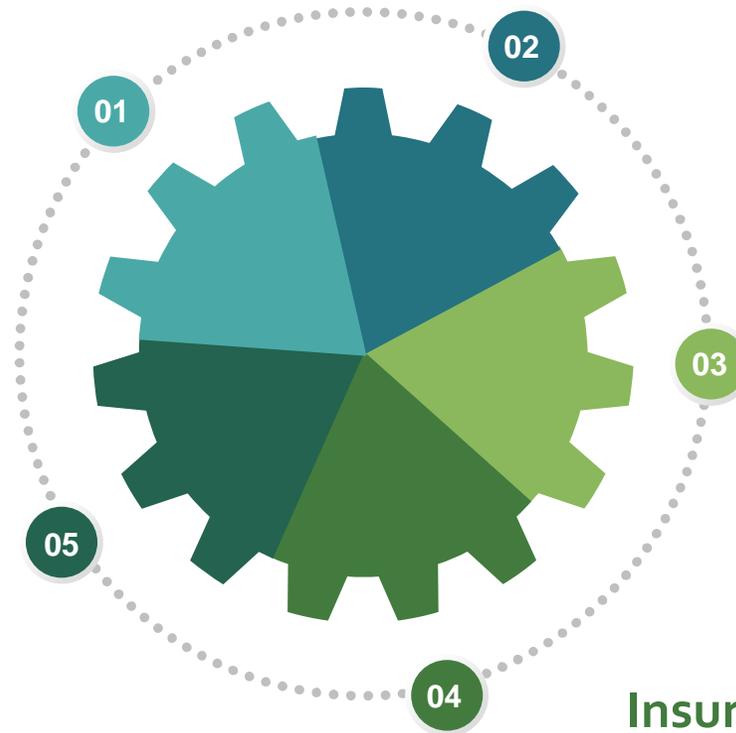


Aggregation and securitization of renewable assets

Technology Incubator



Patient venture capital to early-stage and growth companies with high climate impact technology solutions



Structured fund

FMO
Entrepreneurial
Development
Bank

Climate Investor One

Innovative blended finance facility providing a full project life cycle financing solution to RE projects in developing countries

REDD+/ER Markets



Scale up availability of emission reductions from REDD+ activities and catalyze private sector investment

Insurance



Mobilize private sector institutional investor capital to underwrite energy and climate risks



Disclaimer

This presentation is for information purposes only. The material in this presentation does not imply the expression of any opinion or interest whatsoever on the part of GCF. GCF does not warrant that the information published in this publication is complete and correct and shall not be responsible for any damages incurred as a result of its use.

