ABOUT

WORKSHOP FOR PROJECT DEVELOPERS AND FUND SEEKERS

PART 1: CONTEXT: NEEDS, ACTORS, CONSTRAINT & INSTRUMENTS

PART 2: PROJECT EXAMPLES AND TEMPLATES

GREEN FINANCE: use of financial products and services (loans, bonds, private and public equity, insurance instruments) in ‘green’ (eco-friendly) projects. Green finance is more than climate finance: it includes land, forests, water, oceans, etc.
1. CONTEXT:
NEEDS, ACTORS, CONSTRAINTS AND INSTRUMENTS
FINANCING NEEDS: $400-600 BILLIONS / YEAR

Investment requirements: ranges of estimates in $ Billions per year
Estimate by UNTT working group on Sustainable Development Financing (2013)

• $250-300 billion per year needed
• $52 billion was available in 2014

PUBLIC FUNDS COVER < 15% OF THE GAP | < 1% OF PRIVATE FUNDS COVER THE GAP
INVESTMENT TYPES & ACTORS

Traditional Finance

Integrated

INSTITUTIONAL INVESTORS
Environmental, Social & Governance (ESG) report

Corporations
- Carbon Divestment Campaign
- Greening supply chains
- Negative/positive screening

Impact / Thematic

Impact Investors
- Green Venture Capital
- Green Banks
- Green Bonds

Philanthropic

SUSTAINABILITY SMILE
Patrick Drum, Saturna Capital, 2016
CONSTRAINTS

SO WHERE IS THAT 1% OF PRIVATE CAPITAL TO COVER CONSERVATION GAP?

1. POLICY, INSTITUTIONS AND REGULATIONS
   • Legal and regulatory framework
   • Financial markets and Institutional development

2. PROJECT-LEVEL
   • Risk: Lack of bankable projects (insufficient return), lack of management track record; and Scale
   • Solution: reduce risk at project level using blended finance – combining public funds (grants, loans, equity, guarantees) with private capital

IMPORTANT: PRIVATE SECTOR ENGAGEMENT INCLUDES NOT ONLY FINANCING, BUT BRINGING INNOVATION, INCREASING EFFICIENCY, COST SAVINGS ETC. WE FOCUS ON FINANCE HERE – BLENDED FINANCE IN PARTICULAR
BLENDED FINANCE

Definition: use of public/development finance and philanthropic funds (catalytic capital) to mobilize private capital

Example: Reducing cost of credit by blending Public & Private capital
- Project generates 6%
- Private funder needs 7% on $8m credit
- Public funder accepts 2% on $2m credit (or grant)
- Total: $10m, project generates 6%, $10m x 1.06 = $10.6m
- Private funder receives: 1.07 x $8m = 8.56 (7% on $8m)
- Public funder receives: 1.02 x $2m = 2.04 (2% on 2m) (or nothing if grant)
MAIN FINANCIAL INSTRUMENTS IN BLENDED FINANCE

DEBT

Loan: private transaction, interest payment, specific time, collateral

Bond: public (min $100m)

Seniority matters:
• Debt is senior to Equity
• Senior vs junior debt
• Senior: safer, lower %

EQUITY

Ownership in the business $ = Capital gain + Dividends

Seniority matters:
• Preferred vs common (junior) shares in liquidation
• Dividends different/greater

RISK MNGT INSTRUMENTS

GUARANTEES / INSURANCE / DERIVATIVES

Guarantee - the guarantor will take the first “hit” (up to a predefined limit) in exchange for a fee

Credit guarantee – covers non payment by private borrowers

Performance guarantee - for the contractor to perform the obligations
Public investors are concessional within the capital structure: take subordinate and/or junior terms compared to private co-investors.

### DEBT OR EQUITY

- **Public investors**
- **Private investors**

### RISK MNGT INSTRUMENTS

Risk reduction tools that protect investors against capital losses.

- **Guarantee**
- **Payment based on measurable outcomes**
- **Outcome payor (usually governments or foundations) provides funding if and when the outcome is achieved**

### OUTCOMES BASED FINANCING

- **Proven Outcomes**
- **Payments**

**Example: Rhino project**
GLOBAL SUCCESS OF BLENDED FINANCE REQUIRES SIGNIFICANT PARTICIPATION FROM KEY STAKEHOLDER GROUPS

DEVELOPMENT AGENCIES

MULTILATERAL DEVELOPMENT BANKS AND NATIONAL DEVELOPMENT FINANCE INSTITUTIONS

PRIVATE INVESTORS

PHILANTHROPIC FOUNDATIONS
1. CONTEXT: NEEDS, ACTORS, CONSTRAINTS AND INSTRUMENTS

2. PROJECT EXAMPLES & TEMPLATES
GEF NON-GRANT INSTRUMENT (NGI)

GEF-7
• $136 million
• Debt, equity or risk guarantees
• Max $15 million per project, exceptions possible

GEF-6
• 11 projects • $99.5M from GEF • $1.79B co-financing
GUARANTEES FOR ENERGY EFFICIENCY PROGRAM

GEF $18m as guarantees, co-financing $152m World Bank

• **Background:** Energy Service Companies - private enterprises implementing improvements to reduce energy consumption - seek lending for equipment and process improvements

• **Barriers:** companies lack access to commercial credit - high collateral required by the banks

• **Solution:** credit enhancement guarantee program, establishing Partial Risk Sharing Facility to share risk with commercial banks

<table>
<thead>
<tr>
<th>Risk Sharing Facility</th>
<th>Banks</th>
<th>Next 90% Loss</th>
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<tbody>
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<td></td>
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<td>First 10% Loss</td>
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Energy Service Companies In India
GEF invested in $12m junior equity, co-financing $50.8m African Development Bank (AfDB)

- **Background**: support for sustainable land management and agro-forestry production
- **Barriers**: private investors reluctant to invest in agro-forestry due to: long payback periods, lack of track record, product price uncertainty
- **Solution**:
  - Moringa Agro-Forestry Fund for Africa, managed by the AfDB
  - GEF takes junior equity position - lowers risks for private investors
  - Fund: 6 replicable agroforestry projects in sustainable land management
  - Burkina Faso, Côte d’Ivoire, Kenya, Mali, Tanzania, Zambia, Congo DR
- **Activities/revenues**: plantation forestry and agricultural products
HOTELS INSURE CORAL REEFS

Who:

• **Hotels** + local organizations dependent on tourism + Government of Mexico

• pay premiums (between $1m-$7.5m per year) in a collective insurance fund - backed by the government and managed by Swiss Re

Insurance policy:

• 60km stretch of reef and beach, monitored

• If storms damage the reef system, the insurer (Swiss Re) will pay out around $25m-$70m in any given year

• Payouts will be used for restoration of the reef by TNC
OUTCOMES-BASED FINANCING FOR RHINO CONSERVATION

• Impact Investors pay into Special Purpose Vehicle (SPV) that provide funds to NGO to increase rhino population:

**Impact investors → SPV → NGO for achieving outcomes**

• SPV is set up: to channel funds + account for losses/profits

• Full/partial repayment based on indicators achieved:

**Outcome Payers (donors, Gov) → SPV → Impact Investors**

• Result: risk transfer + efficiency + Government will have more money later to repay
CONSERVATION INVESTMENT TEMPLATES
by Coalition for Private Investors In Conservation

Templates in the areas of:

• Coastal resilience

• Forest landscape conservation

• Green infrastructure for watershed management

• Sustainable agricultural

• Sustainable coastal fisheries

Selected templates – next slides. More at CPICfinance.com
**TEMPLATE 1: PPP FOR MARINE CONSERVATION**

**Geography:** Caribbean island states, South East Asia

**Investments:** loans to businesses (PPPs) for the management of MPAs

**Revenue:** Visitors fees + tourism activities: diving, snorkeling, tours, water sports

**Revenue dependency:** min 100k ‘blue’ tourists per year and 200k fee visitors

**MPAs management via Special Purpose Vehicle (SPV)**
- to receive loan from investors and invest in MPAs
- get user fees an pay back to investors
- to keep liabilities, taxation, and regulation as a distinct legal entity

**Investment sought:** average debt $2.5m per SPV, 8 years, 2 years grace period

**Investors:** DFIs, private impact investor funds, and national stakeholders (HNWIs)
**TEMPLATE 2: FOREST CONSERVATION**

**Blended Finance:** private equity investments + public $ (small business loans)

**Revenue:**
- Investors (timber companies) purchasing forests, or purchasing land and reforesting; sustainably manage it according to sustainability certifications
- $ sale of land rights to Conservation Organization via conservation easement
- Sustainable logging fees
- Carbon credits sold by land owners with sequestration commitment
- Permits from sportsmen club

**Revenue dependency:**
- Legislation allowing conservation easements for cash/tax credit
- Conservation Organization with sufficient capital
- Land with critical value/size
SELECTED PRIVATE GREEN FINANCE ACTORS

INSTITUTIONAL INVESTORS
• via CPIC or NaturVest at TNC – project preparation
• UBS, Credit Suisse, BlackRock, GPIF – ESG investments

IMPACT INVESTORS
• Mirova, NatureVest, Encourage Capital (Forest Bond example), Global Impact Inv Network

VENTURE CAPITAL
• WB InfoDev Climate Technology program; GEF/UNIDO CleanTech Open

PARTNERSHIPS
• Coalition for Private Investors in Conservation (CPICfinance.com)
• Convergence - blended finance facility and database (www.convergence.finance)
• Green Banks - contact Coalition for Green Capital (coalitionforgreencapital.com)
QUESTIONS?

Olha Krushelnytska - okrushelnytska@thegef.org

RESOURCES

• 20+ studies on Private Sector Conservation Finance
  http://cpicfinance.com/resources

• Convergence database on Blended Finance transactions
  https://www.convergence.finance

• Green Finance Network on LinkedIn: 400+ global practitioners