External sources of financing for Sustainable Cities

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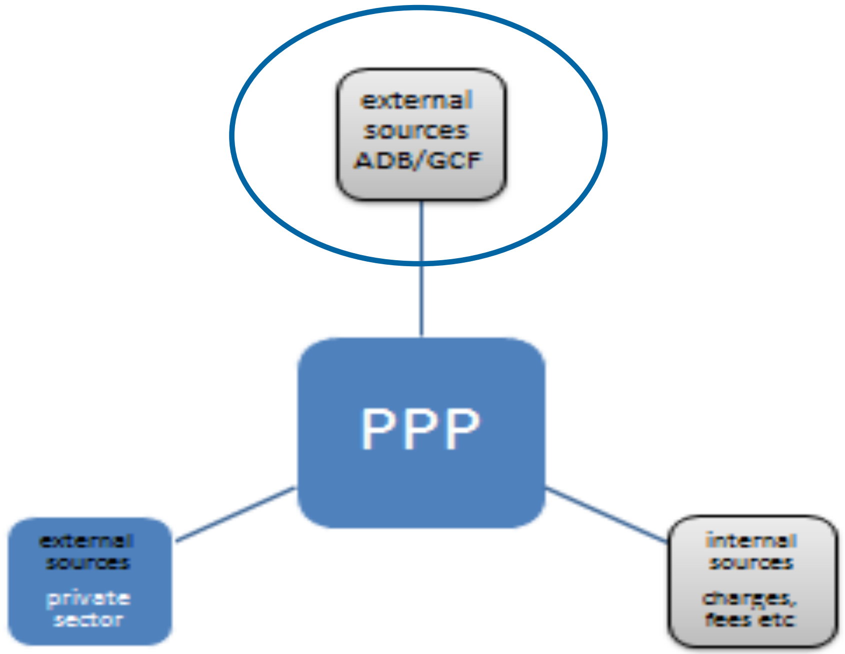
Where are we?



external sources ADB/GCF
PPP
external sources
private sector
internal sources
charges, fees etc

ADB’s Climate Change Strategic Framework 2030

- Heterogeneity of DMCs: Environmental, economic, social differences, GHG emissions contributions and vulnerability levels.

- Varying levels of DMC commitment to climate action and capacity for implementation: different starting points and ambitions

- A changing landscape of climate financiers and stakeholders: general shift from climate action led primarily by state actors towards actions by a multitude of non-state actors; emergence of new networks and coalitions of actors across different countries, regions, and sectors.

- Facilitate access to external public and private climate finance
- Convene partners to mobilize finance

Global:

Green Climate Fund
Global Environment Facility
Global Infrastructure Fund
Climate Investment Funds

Regional:
A3PF
Urban Climate Change Resilience Trust Fund
ACLIFF
Canadian Climate Fund for the Private Sector
ADB Climate Change Fund
Future Carbon Fund
Asia Climate Partners (ACP)
Climate Technology Finance Center
Japan High Level Technology Fund
Japan Fund for the Joint Credit Mechanism

Bilateral:

KFW
AFD
DFID
SIDA
JICA

MDBs:

WB
EBRD
EIB
AFDB
IDB

Green Climate Fund

- Separate entity under the UNFCCC
- Pledges of $10.3 billion from 43 countries
- Operates exclusively through Accreditation Master Agreements (AMA) with accredited entities
- ADB among the first entities accredited, since early 2015
- 43 projects approved to date ($2.2 billion)

The GCF provides to help developing countries respond to climate change: (1) Empowering countries; (2) Getting Accredited; (3) Funding projects; and (4) Implementing projects.

(**1**) The **GCF Readiness Program** provides resources for strengthening the institutional capacities of NDAs or focal points and Direct Access Entities to efficiently engage with the Fund. Resources may be provided in the form of grants or technical assistance.

Up to USD 1 million per country per year may be provided under the Readiness Program.

The Program aims to support five outcomes connected to the Program objectives: strengthening country capacity, engaging stakeholders in consultative processes, realizing direct access, providing access to finance, and mobilizing the private sector.

(**2**) It is possible to partner with GCF by becoming **accredited**.

GCF mobilizes climate finance by working through a wide range of organizations. Organizations seen to have specialized capacities in driving climate action may apply to become GCF Accredited Entities. They can be private, public, non-governmental, sub-national, national, regional or international bodies.

Accreditation is a process following due diligence which ensures GCF partners share the same objectives as the Fund, and that they have extensive experience and strong financial and managerial infrastructure.

Examples of accredited entities:
FECO (MEP) in China
XacBank in Mongolia

Start of a transfer of funds to XacBank in Mongolia at the end of May. The USD 20 million private sector project is helping drive investment by medium and small enterprises in Mongolia’s low-carbon energy sector.

(**3**) Project Preparation

The **Project Preparation Facility (PPF)** supports Accredited Entities (AEs) in project and program preparation. It is especially targeted to support direct access entities, and micro-to-small size category projects.

(**4**) Project Implementation

Start of a transfer of funds to XacBank in Mongolia at the end of May. The USD 20 million private sector project is helping drive investment by medium and small enterprises in Mongolia's low-carbon energy sector.

Key to align proposals with national climate change strategies, to demonstrate transformational role of the project, to match GCF funding with climate proofing element of the project, to outline alternative scenarios considered, including sources of funding and outreach to the private sector.

April 2017 Board Meeting: Push for **private sector entities from developing countries** to become accredited (most private sector entities accredited to date are from developed countries).

Private Sector Facility

The Green Climate Fund (GCF) is committed to unleash the potential of the private sector for clean energy and climate resilience projects in developing countries. The GCF leverages own resources with the private sector.

The PSF is actively engaging with **pension funds, insurance companies, corporations, local and regional financial intermediaries, and the capital markets.**

GCF can finance private sector projects relating to mitigation and adaptation activities at all levels.

GCF’s core activities include clean energy, energy efficiency, climate-related innovation, resilient infrastructure, products and services for vulnerable communities, agriculture, forestry, food, water security, and ecosystems preservation.

GCF uses flexible financial instruments (including debt, equity, and guarantees). It can combine these instruments with concessional funding to promote private sector investing in our core activities by:

• **De-risking investments**, including foreign exchange and investors' default;

• **Bundling small projects into portfolios**, providing scale and making them attractive to institutional investors;

• Supporting **capacity building** amongst different groups and local institutions;

• Helping develop **public-private partnerships** for infrastructure resilience projects;

• Encouraging innovation, for example by overcoming scale problems and fragmentation within the supply chain

In addition, the GCF has just launched a Request for Proposals for a new program, Mobilizing Funds at Scale.

This call is open to all organizations - including those that are **not yet accredited**.

For details: www.greenclimate.fund/500m.

The closing date is 30 August 2017.

Project pipeline with ADB

PROJECT	TYPE	GCF FUNDING	STATUS
PARD			
FIJ Urban Water Supply and Wastewater	Adaptation	$31m grant	Approved Nov 2015
Pacific Islands Renewable Energy Investment Program	Mitigation	$5m grant	Approved Nov 2016
COO Upscale Renewable Energy and IPP support	Mitigation	$12m grant	
TON Improved Energy Access and Up scaled Renewable Energy	Mitigation	$64m grant	Concept note submitted
NAU Climate Resilient Port Project	Adaptation and mitigation	$27m grant	Proposal going to July 2017 GCF board
CWRD			
UZB Western Uzbekistan Water Supply System Development Project	Adaptation	$40m grant	Concept note submitted
EARD			
MON Ulaanbaatar Affordable Housing and Urban Renewal Project	Mitigation and adaptation	$175m loan, $60m grant, guarantees (tbd.)	Concept note submitted
SERD			
CAM Climate-Friendly Agribusiness Value Chains Sector Project	Adaptation and mitigation	$10m loan, 30m grant	Proposal submitted, targeting Sep 2017 GCF board
MYA Third GMS Corridor Towns Development Project	Adaptation	$11m grant	Proposal submitted, targeting Sep 2017 GCF board

ADB's Urban Climate Change Resilience Trust Fund (UCCRTF)

The Urban Climate Change Resilience Trust Fund (UCCRTF) was established in December 2013 under the **Urban Financing Partnership Facility**. It supports ADB's response to the huge unmet needs of the region for both basic and economic infrastructure, being a core business area of operations under the Strategy 2020.

The UCCRTF will help build **resilience** to the effects of climate variability and climate change within medium-sized cities in Asia, particularly to reduce the vulnerability of the urban poor.

The UCCRTF will use a systems-centered approach that supports **making climate change a central element of city planning**. This will be linked to the implementation of infrastructure and **policy or institutional interventions**, as well as strong knowledge, capacity building, and networking components.

The eligible counties to receive support from the fund are Bangladesh, Pakistan, India, Indonesia, Myanmar, Philippines, and Viet Nam.

ADB's ASIA PACIFIC CLIMATE FINANCE FUND (ACliFF)

ACliFF will develop financial risk products to unlock capital for climate investments

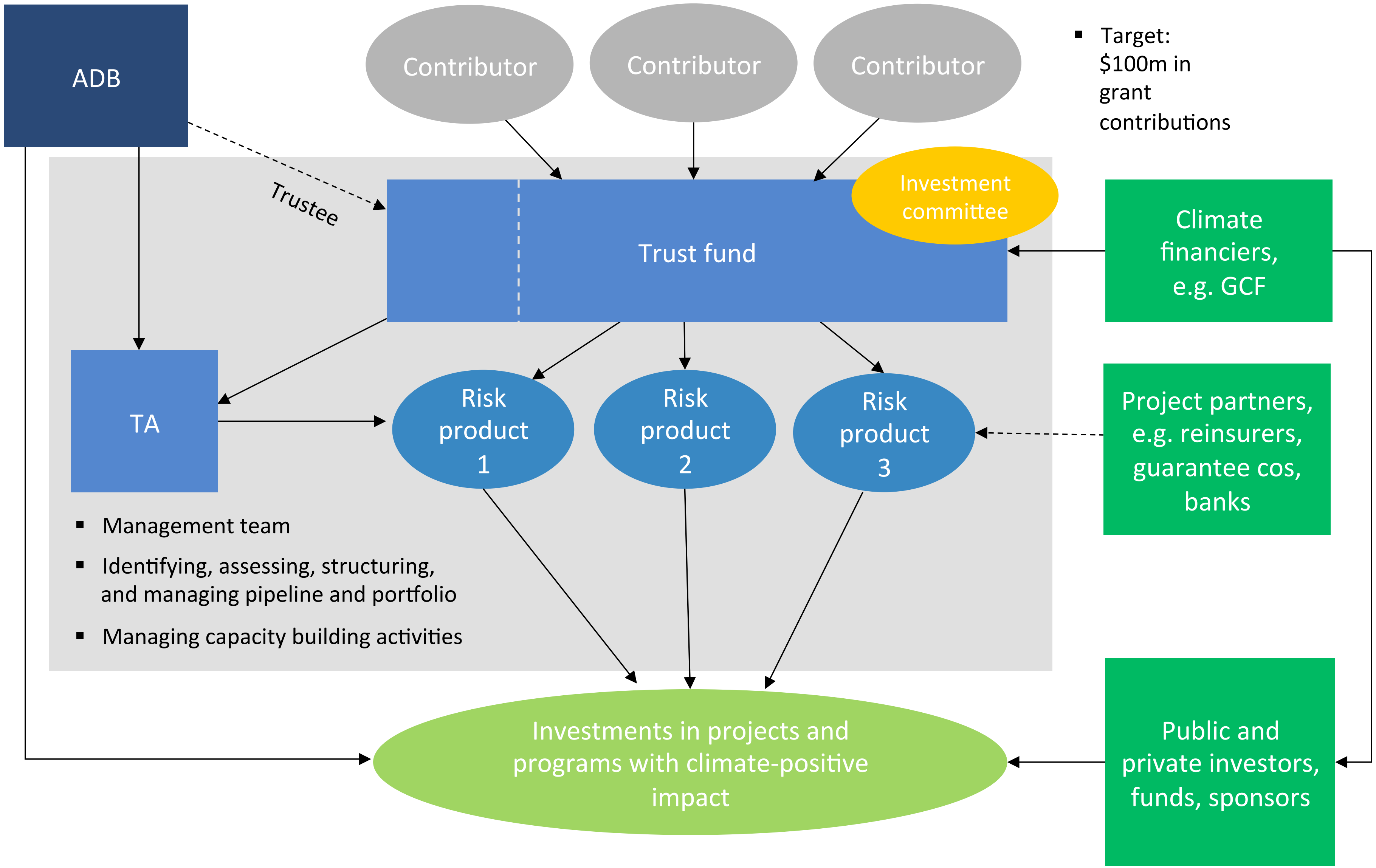
Public and private capital + Financial risk products = Climate investment

- ACliFF will develop new financial risk products to accelerate public and private investment in climate-positive projects
- ACliFF will provide:
    1. technical assistance to identify, develop and structure new financial risk products, e.g. insurance and guarantees
    2. co-financing to pilot and scale the deployment of the financial risk products
- ACliFF will partner with insurance, reinsurance and guarantee companies, DFIs, private investors, and climate financiers

ACliFF is initially targeting two main areas of opportunities for new financial risk products

	DESCRIPTION	EXAMPLE OF RISK PRODUCTS
 **OPPORTUNITY #1:** Risk products to unlock investment in proven technologies in new markets	Financial risk products that accelerate deployment of proven climate solutions in new markets by addressing initial adoption and performance risks	• Energy savings insurance for SMEs • Residential rooftop solar PV guarantee
 **OPPORTUNITY #2:** Risk products to manage climate & weather related risks	Financial risk products that protect the investments of lower-income individuals (e.g. smallholders) and SMEs from adverse climate change and weather-related events	• Disaster risk insurance for portfolios of micro financial institutions

ACliFF structure



- Target: $100m in grant contributions

Example: Energy savings insurance for SMEs

Guaranteeing minimum performance of pre-qualified energy efficiency (EE) solutions for Small and Medium Enterprises (SMEs) to reduce technology adoption risk and transaction costs.

TARGET MARKET: Energy efficiency (EE) investment for SMEs.

INVESTMENT BARRIERS: There are many proven EE solutions with good return on investment. Investments are held back by imperfect information and lack of familiarity with technologies resulting in perceived high risk and high transaction costs.

OPPORTUNITY: ACliFF to partner with insurer/ reinsurer to develop Energy Savings Insurance (ESI) product that guarantees a minimum level of savings for pre-qualified EE solutions, thus reducing risks and transaction costs. ESI will be bundled with EE loans offered by local FIs, including those backed by ADB financing.

STATUS: Exploring pilot of ESI bundled with $50m ADB EE financing in Kazakhstan. Additional potential opportunities in Bangladesh and People's Republic of China.

Example: Solar PV rooftop performance guarantee

Guaranteeing performance of residential solar PV rooftop and providing banks with partial credit guarantees to enable bundling of solar PV financing with home mortgages

TARGET MARKET. Solar PV for rooftops in the residential & commercial sector.

INVESTMENT BARRIERS: Perceived or real performance risk, high cost of financing, and high marketing & transaction costs.

OPPORTUNITY: (1) ACliFF to provide credit guarantee and capacity building to local banks to offer mortgage-linked solar PV loans. This enables lowest-cost solar financing and lower marketing and transaction costs. (2) ACliFF to partner with insurer/reinsurer to offer borrowers a solar PV system performance insurance.

STATUS: Exploring pilot in Sri Lanka bundled with $50m ADB housing loan. Additional opportunities in Bangladesh and Uzbekistan.

Example: Climate risk portfolio insurance for MFIs

Providing disaster insurance to microfinance institutions (MFI) and cooperative to protect loan portfolios against extreme weather events

TARGET MARKET. Microfinance institutions (MFIs) and cooperatives exposed to extreme weather events.

INVESTMENT BARRIERS: Significant risk of extreme weather events reduce access to loans in high risk areas while disaster events can damage loan portfolios, leaving limited scope to support the recovery process.

OPPORTUNITY: ACliFF to partner with re/insurance companies to assess and offer portfolio insurance to MFIs and cooperatives against extreme weather events.

STATUS: Potential opportunity to pilot a pooled arrangement for MFI portfolio insurance in Southeast and South Asia.

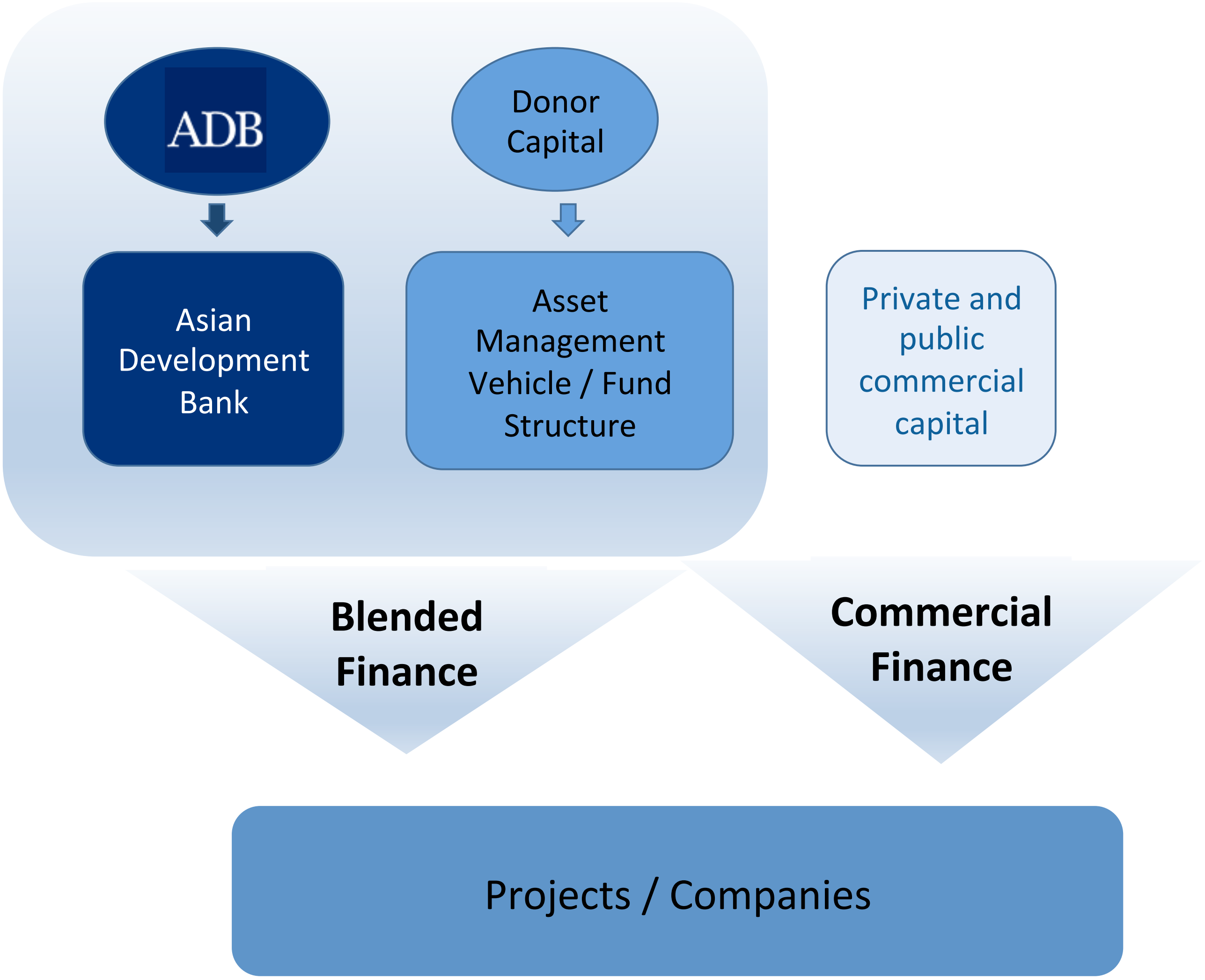
Canadian Trust Fund for the Private Sector in Asia (II)

Overview

- The Canadian Climate Fund for the Private Sector in Asia II (CFPS II) is a $150 million stand-alone, ADB-managed, single-donor trust fund
- The purpose is to provide concessional cofinancing support greater private sector participation in climate adaptation and mitigation projects in LICs LMICs & SIDS in Asia/Pac
- The Fund also seeks to promote gender equality and the empowerment of women and girls
- CFPS II will aim to play a key role in helping the private sector overcome development risks (including market, technology, financing, regulatory and other risks) by offering concessional financing to projects that would not proceed solely on a commercial basis
- Concessional financing will be used to help offset cost hurdles and initiate, scale-up and replicate high impact projects in markets that show strong potential for growth
- The Fund has an expected life of 25 years including an initial investment period of six years
- ADB is the lender of record, administer and trustee of the Funds (CFPS I and CFPS II)
- Reflows will be paid back to Canada when received by ADB

What is Blended Finance?

Blended finance refers to the "blending" of funds from donor partners alongside ADB's own capital to reduce bankability constraints, thereby catalyzing more projects to market



Concessional Blended Finance

Uses softer terms and conditions to improve commercial viability of transactions

HIGH

FINANCIAL VIABILITY

LOW

Commercially viable – Market-based financing readily available from public and private capital markets

De-Risking - concessional financing and/or innovative structuring required to improve the commercially viability of projects

Not commercially viable - Needs permanent or long-term subsidies from governments or non-government organizations

Aims to improve commercial viability to catalyze developmental projects

Concessional Blended Finance

Concessional = softer terms: lower pricing, longer tenor, lower rank, reduced security

ADB

Appropriate use of Blended Finance

- Pioneering, cutting edge, first-of-a-kind project that faces many barriers but also serious development impacts; and
- There are high perceptions of risk because of a new project type, geography, financing structure, business model etc; and
- If we demonstrate it can be done, the private sector will scale up; and
- The project will unlock the sector for new players; and
- There is good potential for growth; and
- We can leverage commercial financiers currently on the fence; and
- We are not pushing anyone out of the deal; and
- We have tried various commercial solutions, but the project is genuinely stranded.

Inappropriate use of Blended Finance

- A client is shopping around for cheap financing, can we offer them some concessional financing?
- We may get pushed out of this deal, can I have concessional financing to sweeten our offering?
- The client bid low and now needs concessional financing to make the deal happen
- Can I use concessional financing so we have a bigger seat at the table?
- Can we offer concessional financing to the same client for the same type of project because there was no growth in the market?
- Can I use concessional financing to rescue my project that is in trouble due to poor management?

Uncertainty on the use of Blended Finance

- I am at concept stage, can I have concessional financing?
- My project is really new and interesting
- The sponsor is having a hard time raising capital
- The government support/FIT is not strong
- There is regulatory uncertainty
- It's a difficult market
- ADB hasn't done much in this area
- The development benefits are really strong